

# Evolution of the Foreign Exchange Market and Exchange Balance

December 2018



BANCO CENTRAL  
DE LA REPÚBLICA ARGENTINA

# Transactions in the Foreign Exchange Market and the Foreign Exchange Balance

## Foreign Exchange Transactions and Foreign Exchange Balance in December 2018

- ✓ *In December, companies in the real sector were net sellers of foreign currency for an amount of nearly USD1,500 million.*
- ✓ *Within this group, the main sector with net sales in historical terms ("Oilseeds and Grains") recorded sales for about USD1,400 million, which evidenced a drop of 15% y.o.y.*
- ✓ *Companies in the "Non-Agricultural Real Sector" recorded net sales totaling nearly USD100 million. This result differs from that of December 2017 when net purchases totaled USD1,850 million. This difference is partly explained by a sudden stop in imports over the past few months, and partly by sales to cover liquidity shortfalls in December.*
- ✓ *Natural persons, who mainly demand foreign currency for saving and traveling abroad, made net purchases for about USD800 million ( vis-à-vis USD2,700 million recorded in December 2017). This amount exhibits a 70% drop in purchases and is one of the lowest figure recorded since foreign exchange regulations were eased in December 2015. The raise in purchases against November is mainly explained by a higher demand for banknotes for saving purposes and summer vacation abroad. In turn, this higher demand results from a rise in personal income derived from the collection of the second half of the "thirteenth month" pay.*
- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net purchases of around USD150 million. This level of purchases stood for less than 10% of the monthly average net purchases made from April to September, a period marked by foreign exchange instability.*
- ✓ *Financial and foreign exchange institutions purchased around USD750 million from their clients in the foreign exchange market, used their own funds (around USD400 million) for underwriting securities in the primary market, and recorded loans for USD150 million from foreign lenders. These transactions together with the increase in deposits and the payment of domestic loans denominated in foreign currency explain a rise in the amount of foreign exchange held by financial institutions shown both in their General Exchange Position and their accounts with the BCRA.*
- ✓ *Given that the foreign exchange rate always remained within the "non-intervention range", the BCRA did not intervene in the forex market. December was marked by an enlargement of a swap with The People's Bank of China as a result of which USD8,700 million entered the local market.*
- ✓ *The General Government received USD7,640 million under the third tranche of the Stand-By Agreement with the IMF, and net incomes from other international agencies for almost USD1,000 million. In addition, it made net payments of principal and interest of debt securities for USD 3,500 million.*
- ✓ *Summing up, gross international reserves increased USD14,613 million along December, totaling USD 65,806 million by end year.*

## I. Introduction

This report analyses information on foreign exchange transactions made in December 2018 as gathered by the Exchange Transaction Reporting System administered by the BCRA. Additionally, it relies on information on changes in BCRA's International Reserves due to transactions carried out by BCRA on its own account or on behalf of the National Government, and on changes in the balance of institutions' accounts.<sup>1</sup>

Data collected from institutions include information on every transaction conducted in the forex market by natural or legal persons (including the sector to which they belong, which agrees with the main business activity reported to AFIP (Federal Administration of Public Revenue), amounts traded, currency denomination, and the reason for the foreign exchange transaction (heading)—such as export or import of goods or services, saving, and financial liabilities, as defined in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

This report discusses the forex market performance by aggregated transactions in terms of the sector of the trader involved. The analysis of historical statistics is then simplified and information is breakdown by sector given that, since July 2017, traders are no longer required to report the reasons (headings) for their transactions through an affidavit; on the contrary, they are only requested to provide such information for statistical purposes, which is undoubtedly a hindrance to the historical comparison of series. This methodology does not change the total net result broken down by sector.<sup>2</sup>

Section II deals with the changes in BCRA's international reserves and analyses the result of foreign exchange transactions for December and in year-to-date terms (2018); data are broken down by sector and by heading.

Additionally, it is worth noting that the Foreign Exchange Balance will still be presented in an analytical format based on data on the Balance of Payments broken down by component and by institutional sector; the remaining information will also be available in online Annexes and in the statistical series related to the Foreign Exchange Market and the Foreign Exchange Balance.<sup>3</sup>

Section III through Section VIII are divided in sectors, each of which comes with a Foreign Exchange Balance which comprises transactions carried out by institutions with their clients in the foreign exchange market and those carried out by the BCRA—either on its own account or on behalf of the National Government.

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<sup>1</sup> Communication "A" 3840, as amended.

<sup>2</sup> Communication "A" 6244 . Sectors were grouped into: "Central Bank", "Institutions", "General Government", "Oilseeds and Grains", "Other Real Sectors", "Natural Persons", and "Institutional Investors and Others".

For identification purposes, each sector is defined as follows: "**General Government**" stands for the so-called "Public Sector" and embraces transactions made by the National Treasury directly through its account in foreign currency held with the BCRA; "**Oilseeds and Grains**"; "**Other Real Sectors**" includes the following sectors: "Oil", "Food, Beverages and Tobacco", "Textile and Leather Industries", "Paper, Publishing and Printing Industry", "Chemical, Rubber and Plastic Industries", "Non-Metallic Mineral Products (Cement, Ceramics and Others)", "Manufacture of Common Metals", "Machinery and Equipment", "Automobile Industry", "Other Manufacturing Industries", "Electricity (Generation, Transport, Distribution)", "Gas (Extraction, Transport, Distribution)", "Water", "Commerce", "Transport", "Communications", "Mining", "Agriculture, Livestock and Other Primary Activities", "Construction", "Information Technology", "Gastronomy", "Entertainment" and "Tourism and Accommodation Services"; "**Financial and Foreign Exchange Institutions**" includes the sector's transactions; "**Natural Persons**" is a subsector of "Other Non-financial Private Sectors"; and "**Institutional Investors and Others**" includes "Insurance" as well as the rest of the "Other Non-Financial Private Sectors".

<sup>3</sup>The Central Bank's website ([www.bkra.gov.ar](http://www.bkra.gov.ar)) contains different statistical series of the Foreign Exchange Market (to access statistical series, [click here](#)), together with an annex broken down by sector and main heading (to access statistical Annex of the foreign exchange balance [click here](#)). In addition, the "Main differences between the balance of payments and the foreign exchange balance" are available in the "Publications" section, "Foreign Sector" / "Foreign Exchange Market" subsection ; to access the text [click here](#)). The results in this section are broken down by the main sectors trading in the forex market in order to set net purchasers apart from net sellers.

Finally, section IX deals with information on the amount traded in the foreign exchange market. This amount stands for transactions made by institutions with their clients—both gross purchases and gross sales—transactions between institutions, and those carried out among institutions and the BCRA.

## II. Result of the Foreign Exchange Market and Changes in BCRA International Reserves

Given that the foreign exchange rate always remained within the “non-intervention range”, the BCRA did not intervene in the forex market along December. BCRA's international reserves increased by USD14,613 million over the month mainly due to the enlargement of the swap with The People's Bank of China for USD8,700 million, debt-net inflows from international agencies by around USD8,600 million, and an increase of financial institutions' accounts held with the BCRA for about USD1,000 million minus net payments of government securities for nearly USD3,600 million (for more information see Sections VII and VIII).

The following table is intended to analyze institutions' purchases and sales carried out in the forex market. For readers' convenience, each sector's net foreign exchange result analyzed in this report is arranged in horizontal reading direction, and each heading's net foreign exchange result—as informed by the institutions to the BCRA—is displayed vertically.

**Table II.1 Foreign Exchange Market**  
Result by sector and main headings. December 2018  
Equivalent in billion dollars

Sector/Main Headings	Goods	Travel and Passenger Transport, and Others with Cards	Remaining Services and Other Current Transfers	Foreign Assets – Banknotes	Foreign Assets - Foreign Currency	Debt, FDI, Portfolio, and Other Transactions	Total
<b>Non-Financial Private Sector</b>	<b>1,4</b>	<b>-0,3</b>	<b>-0,2</b>	<b>-0,4</b>	<b>-0,5</b>	<b>0,5</b>	<b>0,5</b>
Oilseeds and Grains	1,4	0,0	0,0	0,0	0,0	-0,1	1,4
Non-Agricultural Real Sector	0,0	-0,1	-0,3	0,1	-0,4	0,8	0,1
Natural Persons	0,0	-0,3	0,0	-0,6	0,0	0,0	-0,8
Institutional Investors and Other	0,0	0,1	0,0	0,0	-0,1	-0,2	-0,1
<b>General Government</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,2</b>	<b>0,4</b>	<b>0,0</b>	<b>0,1</b>	<b>0,2</b>
<b>Institutions (Own Transactions)</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,3</b>	<b>-0,3</b>
<b>Institutions' Result with Clients</b>	<b>1,3</b>	<b>-0,3</b>	<b>-0,4</b>	<b>0,0</b>	<b>-0,5</b>	<b>0,3</b>	<b>0,5</b>

This type of presentation allows underscoring different behaviors.

As shown in Chart III.1 of the following section, "Oilseeds and Grains" was the main net supplier of foreign currency in the market over December. This sector reported net inflows for USD1,400 million for virtually all concepts included in “Goods” (collections on exports net of payments for imports), which is reasonable enough as it proves to be the main exporting sector in the economy.

Since the date foreign exchange regulations were relaxed, “Non-Agricultural Real Sector” companies are not only allowed to pay their foreign liabilities under specific headings on a case-by-case basis (payments for imports of goods and services, for primary income, and for debt securities or loans) but also to make net transfers to their own accounts abroad under the “Foreign Assets — Foreign Currencies” heading (net outflow for USD400 million in December) in order to subsequently make payments to their creditors with the funds so transferred. Furthermore, companies in this sector have exhibited the highest net amounts derived from net financial inflows and foreign direct investment (FDI).

“Natural Persons” (residents) basically demand foreign currency for saving purposes (USD550 million in November) and for making trips abroad (USD300 million).

“Institutional Investors and Others” comprises residents and non-residents, whose most significant transactions involve changes in portfolio (net outflow of USD150 million in December).

In addition, aggregate amounts of foreign exchange traded over 2018 (see Table II.2) are shown in a double-entry chart broken down by sector and main heading. "Natural Persons" and companies in the “Non-Agricultural Real Sector”, followed by “Institutional Investors and Others” were the main net purchasers. This demand was

mostly satisfied with foreign currency coming from the “Oilseeds and Grains” and “General Government” sectors.

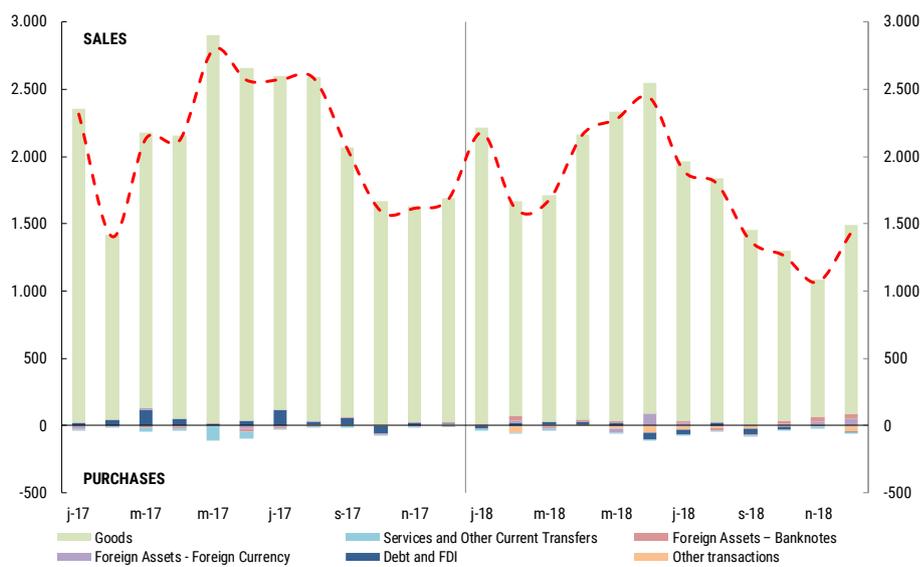
**Table II.2 Foreign Exchange Market**  
**Result by sector and main headings. 2018**  
 Equivalent in billion dollars

Sector/Main Headings	Goods	Travel and Passenger Transport, and Others with Cards	Remaining Services and Other Current Transfers	Foreign Assets – Banknotes	Foreign Assets - Foreign Currency	Debt, FDI, Portfolio, and Other Transactions	Total
<b>Non-Financial Private Sector</b>	<b>8,9</b>	<b>-8,0</b>	<b>-2,6</b>	<b>-18,0</b>	<b>-9,2</b>	<b>4,1</b>	<b>-24,8</b>
Oilseeds and Grains	21,2	0,0	-0,1	0,1	0,2	-0,3	21,2
Non-Agricultural Real Sector	-11,1	-2,6	-2,5	-0,4	-6,2	8,0	-14,8
Natural Persons	-0,2	-6,8	0,4	-17,2	-1,6	1,5	-23,8
Institutional Investors and Other	-1,0	1,3	-0,4	-0,6	-1,6	-5,1	-7,4
<b>General Government</b>	<b>-0,4</b>	<b>0,0</b>	<b>-1,7</b>	<b>7,9</b>	<b>0,0</b>	<b>-0,4</b>	<b>5,3</b>
<b>Institutions (Own Transactions)</b>	<b>-0,2</b>	<b>0,0</b>	<b>-0,1</b>	<b>0,0</b>	<b>0,0</b>	<b>-2,8</b>	<b>-3,1</b>
<b>Institutions' Result with Clients</b>	<b>8,3</b>	<b>-8,0</b>	<b>-4,4</b>	<b>-10,1</b>	<b>-9,2</b>	<b>0,9</b>	<b>-22,6</b>

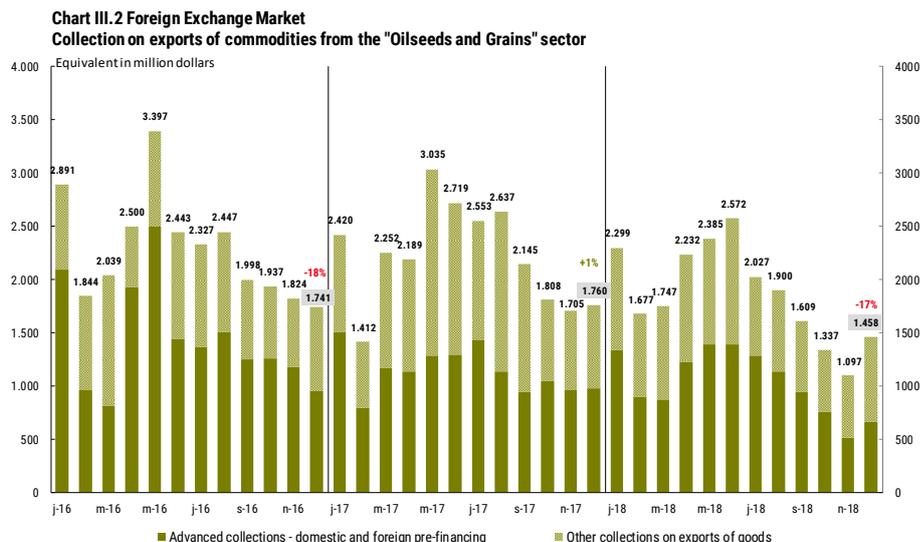
### III. Oilseeds and Grains

The “Oilseeds and Grains” sector recorded a USD1,435 million surplus in December (see Chart III.1) in spite of a fall of 15% y.o.y.

**Chart III.1 Foreign Exchange Market**  
**Oilseeds and Grains' Net Result**  
 Equivalent in million dollars



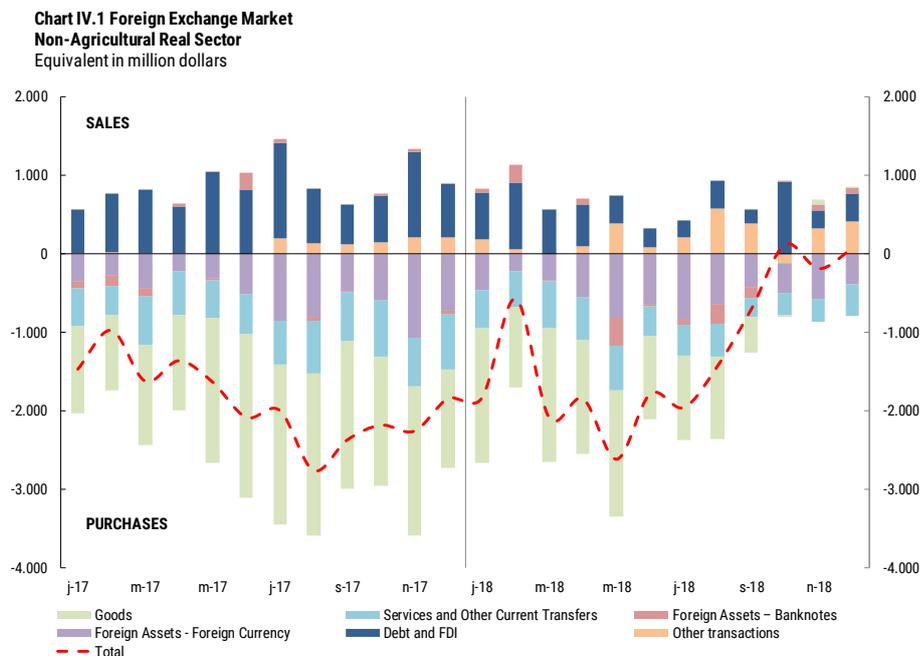
In December, the sector reported collections on exports of goods for USD1,458 million, showing a 17% y.o.y. drop, though remained leading the sector (see Chart III.2). In addition, this sector’s payments for imports of goods through the Forex Market amounted to USD 50 million, posting a 47% y.o.y. drop.



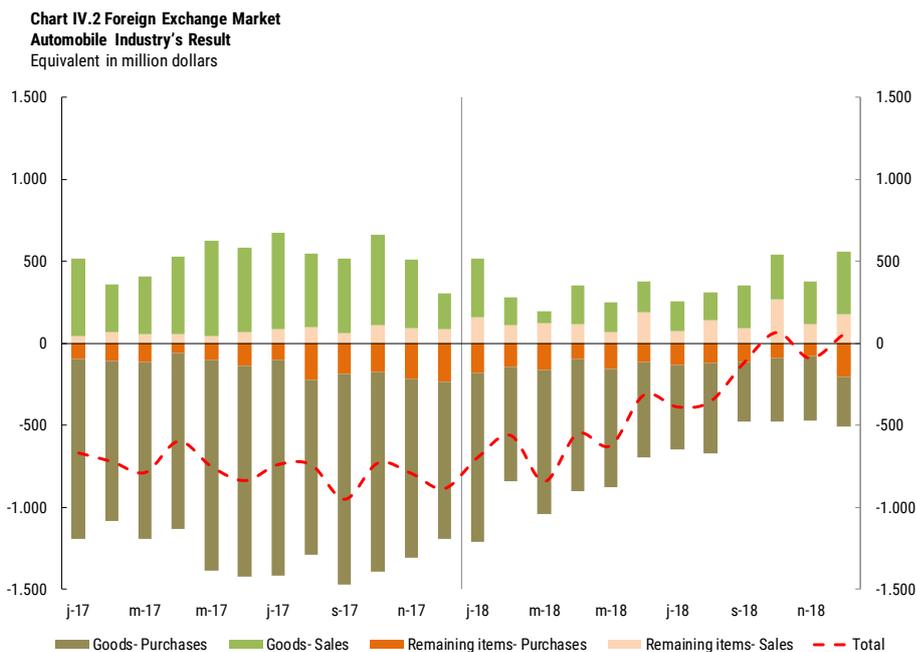
Foreign currency net inflows for “Goods” through the forex market amounted to USD300 million below the sector’s trade balance in December (exports for around USD2,000 million and imports for around USD250 million). This difference is explained by the payment of imports with funds held abroad or the fulfillment of debts deriving from advances and pre-financing.

#### IV. Non-Agricultural Real Sector

Companies in the “Non-Agricultural Real Sector” recorded net sales totaling nearly USD100 million. This result differs from that of December 2017 when net purchases totaled USD1,850 million. The difference is partly explained by a curb on imports in the past few months and partly by sales to fund a liquidity shortfall in December (see Chart IV.1).

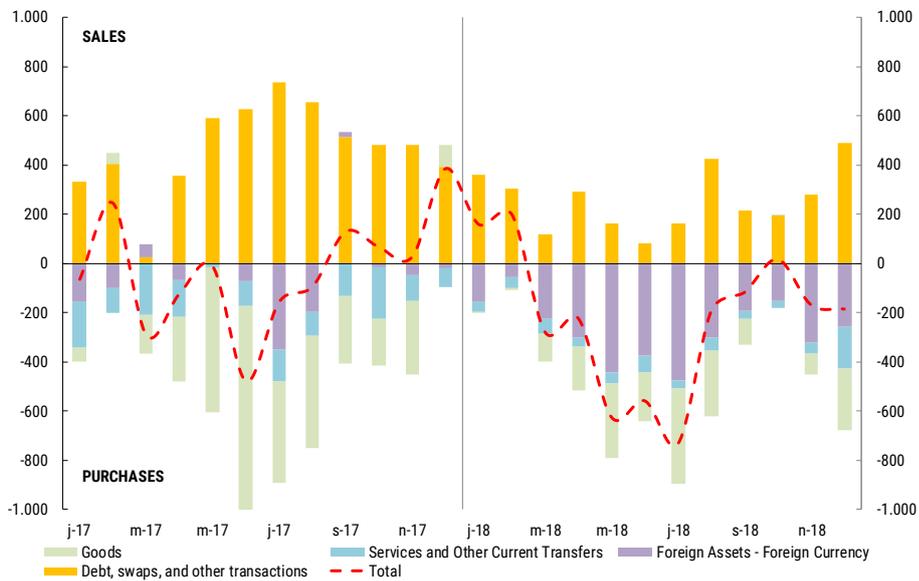


The “Automobile Industry” posted net sales for around USD50 million, exhibiting a reversal of the net outflow amounting to USD900 million recorded in December 2017. (see Chart IV.2). Particularly, this sector reported collections on exports of goods for USD380 million and payments for imports of goods for USD300 million. These gross levels are not in line with foreign trade statistics. This may be explained by the fact that since regulations were eased the companies belonging to the sector have started to (i) offset their commercial liabilities and claims within the same group, thus making net foreign exchange transactions; (ii) make payments for imports of goods through their accounts held abroad—which are funded with collections on exports or by raising debts abroad without settling the resulting foreign exchange in the local market.



In turn, companies belonging to the “Energy” sector recorded net purchases for USD200 million, which may be explained by net payments of goods and transfers to their own accounts abroad against which they pay part of their foreign debts (see Chart IV.3). Clearly, this sector takes advantage of the possibility to use foreign currency without bringing into the local market the funds from exports and the proceeds from the placement of debt securities which, in turn, are allocated to make payments abroad.

**Chart IV.3 Foreign Exchange Market**  
**Energy. Net result of the sector**  
 Equivalent in million dollars

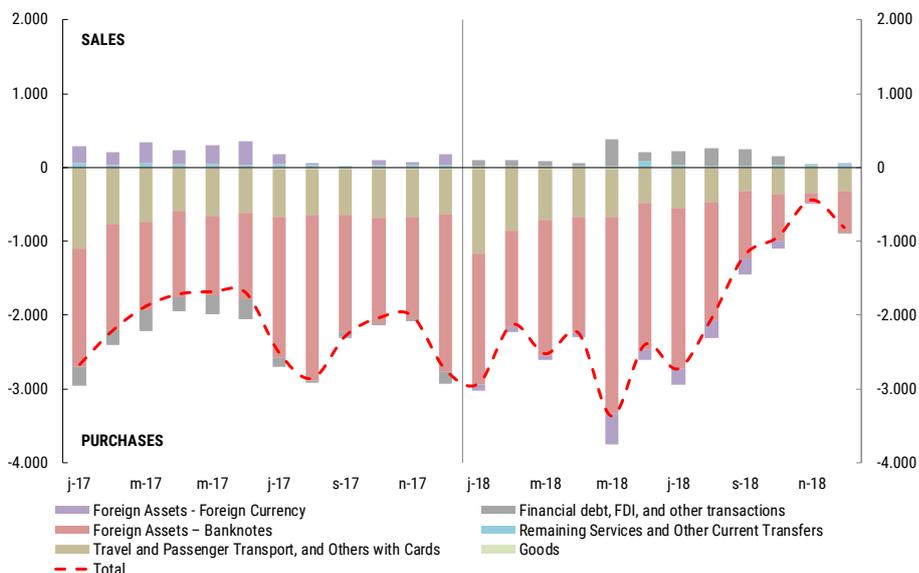


Finally, the remaining companies included in the “Non-Agricultural Real Sector” posted net sales for the third month in a row and totaled USD200 million in December. Outflows fell by USD1,500 million in December on a year-on-year basis as a result of a reversal in the net outflow reported for purchases of goods, lower net payments for services, and less transfers in foreign currency to own accounts held abroad.

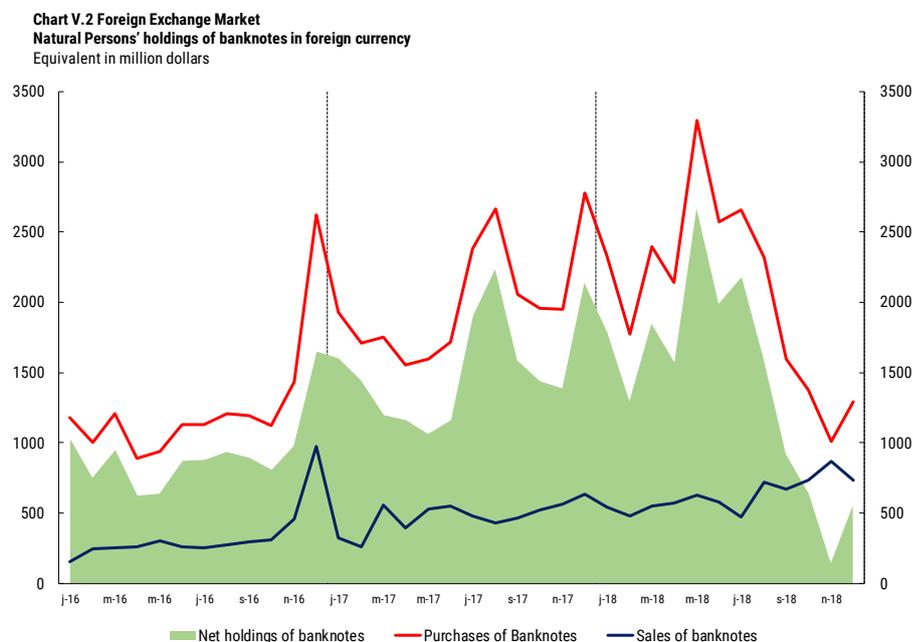
## V. Natural Persons

December is marked by a high demand for banknotes by the “Natural Persons” sector for summer vacation purposes. This is due to a rise in personal income derived from the collection of the second half of the “thirteenth month” pay (see Chart V.1). However, net purchases in foreign currency along December are amongst the lowest minimum values of the year and exhibited a 70% drop vis-à-vis December 2017.

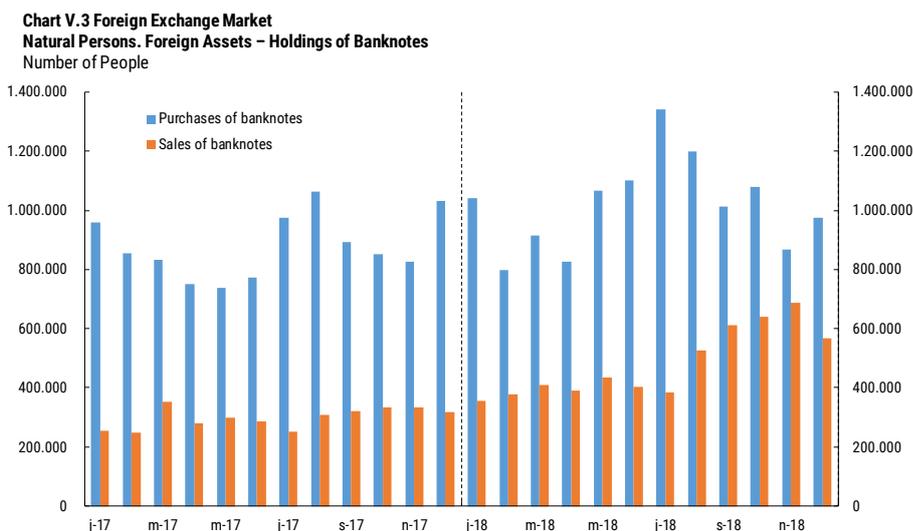
**Chart V.1 Foreign Exchange Market**  
**Natural Persons’ Net Result**  
 Equivalent in million dollars



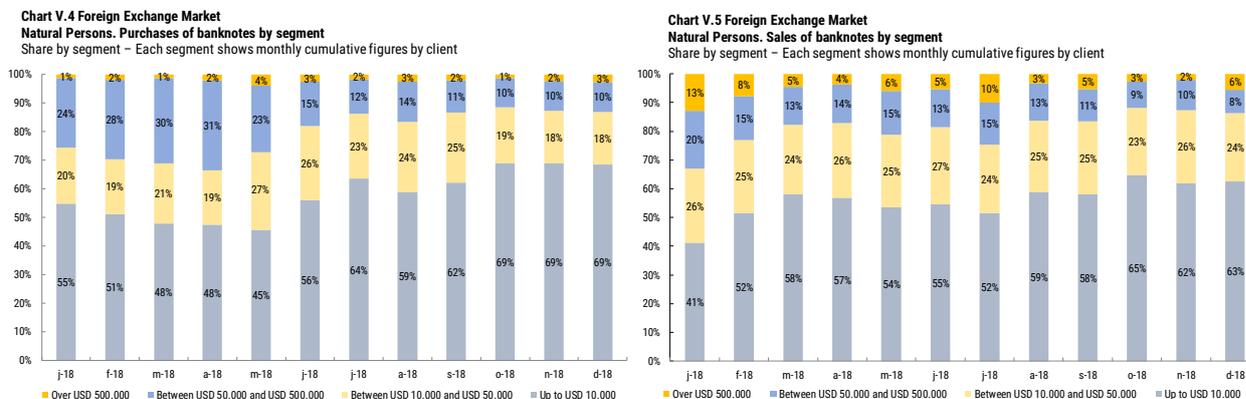
As shown in the following chart, the increase in net purchases of banknotes made by natural persons against November resulted from higher gross purchases (USD1,292 million) and lower gross sales (USD737 million). Gross purchases increased in December's last two weeks when the second half of the "thirteenth month" pay was made.



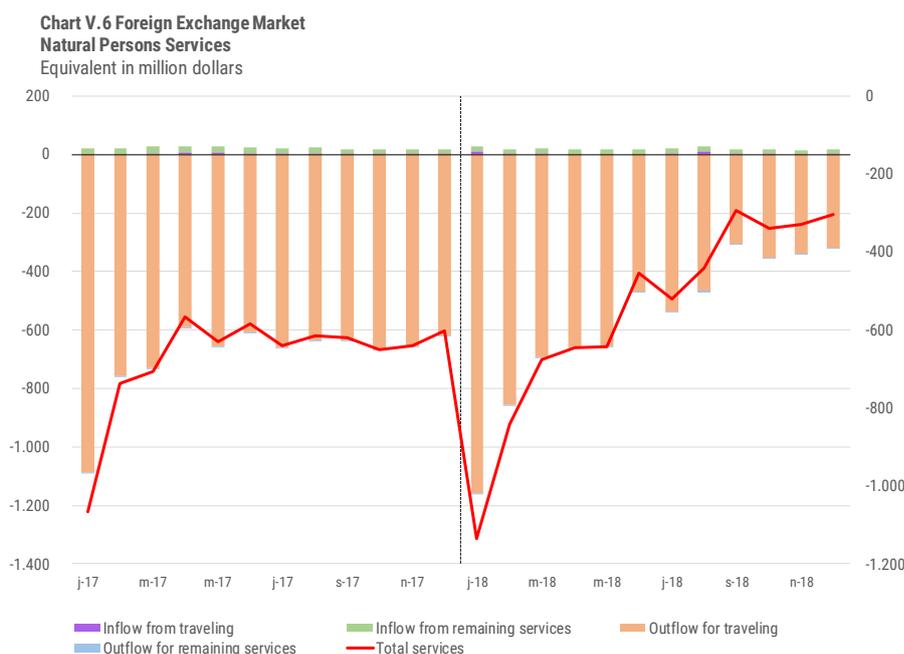
Like amounts, the number of clients selling foreign exchange in the market fell against November (570,000 persons). However, it was almost twice the number of clients in December 2017 (315,000 persons). In turn, the number of clients who purchased banknotes in the market rose by approximately 100,000 (980,000 persons) (see Chart V.3).



As is usually the case, natural persons' foreign exchange transactions account for the lowest amounts: 64% of gross sales, and 69% of gross purchases in November were below USD10,000 (see Chart V.4 and Chart V.5). Sellers posted gross sales per capita for USD1,298, while gross purchases per capita stood at USD1,323.



In turn, natural persons' net outflows aimed to the payment of services totaled for USD300 million, particularly for "Travel, and Other Expenses Paid with Cards", which amounted to USD313 million (net outflow) and showed a comparable performance vis-à-vis November with a fall of 49% y.o.y. (see Chart V.6).<sup>4</sup>



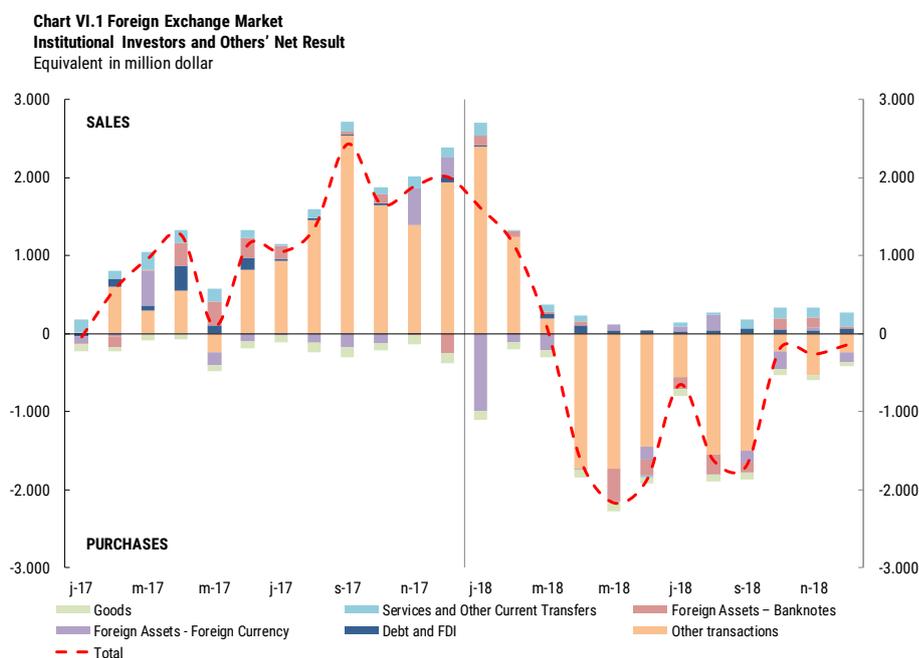
<sup>4</sup>It is worth pointing out that the transfers made to international credit card issuers include purchases made by Argentine residents either during their stay abroad or on a remote basis. Likewise, inflows of foreign exchange include non-resident remote purchases from Argentine suppliers. It is worth underscoring the relevance of the information included in Box 1 of the Foreign Exchange Market and Foreign Exchange Balance Report of January 2018 and in the entry in the Blog entitled "Ideas de Peso", "How much do Argentinians spend when travelling abroad? How much do foreigners spend when visiting our country?". The analyses of the result of "Travel and Passenger Transport" involves collections and payments made outside the forex market, especially because as estimates suggest nonresidents—unlike Argentinians—tend to use alternative channels to make foreign exchange transactions. Likewise, it should also be noted that the foreign exchange account for paying services includes payments for non-travel related services (for example, remote e-commerce).

Finally, net inflows for primary and secondary income totaling USD 40 million were recorded, mainly as a result of retirement and pension collections from abroad.

## VI. Institutional Investors and Others

“Institutional Investors and Others”—both residents and non-residents—recorded net purchases for USD150 million, an amount which is lower than that of November. Net purchases accounted for 9% of the monthly average net outflow from April to September this year when foreign exchange instability occurred. As shown in Chart VI.1, we can see that aggregate net sales of foreign exchange for non-residents’ portfolio investments from June 2017 to February 2018 virtually offset net purchases made in the past nine months.

The results of transactions in this sector are mainly displayed under the headings “Foreign Assets”—for transactions carried out by residents— and “Portfolio Investments”—for transactions carried out by non-residents.

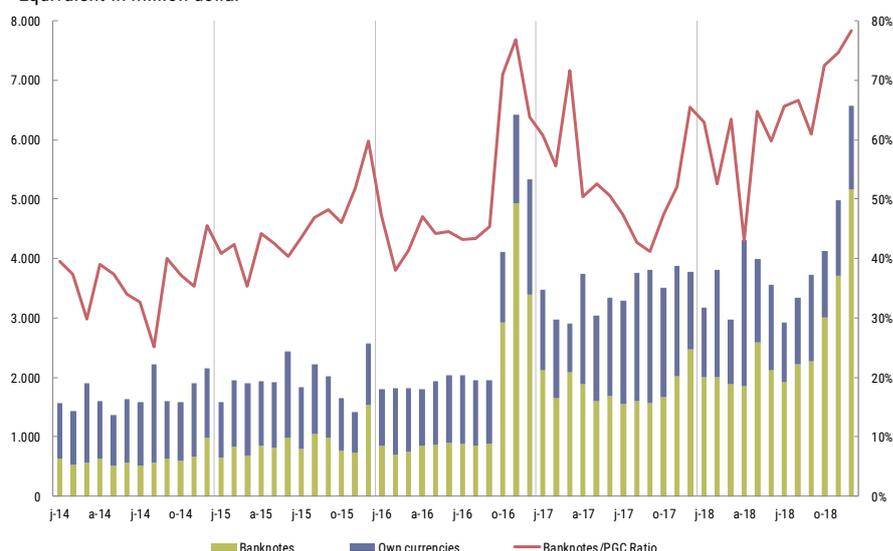


## VII. Financial and Foreign Exchange Institutions

In December, financial and foreign exchange institutions purchased in the forex market around USD750 million from their clients, used their own funds (around USD 400 million) for underwriting securities in the primary market and recorded loans for USD150 million from foreign lenders. These transactions together with the increase in deposits and the payment of domestic loans denominated in foreign currency explain a rise in the amount of foreign exchange held by financial institutions shown both in the General Exchange Position and their accounts at the BCRA.

By the end of December, the General Exchange Position posted USD6,576 million, increasing by USD1,597 million against November, mainly due to a hike in institutions' foreign exchange banknotes (See Chart VII.1).<sup>5</sup>

**Chart VII.1 Exchange Balance  
Institutions' Exchange Position (PGC)  
Equivalent in million dollar**

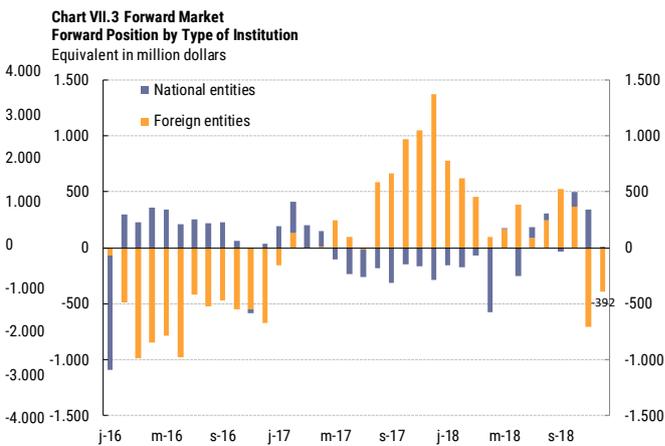
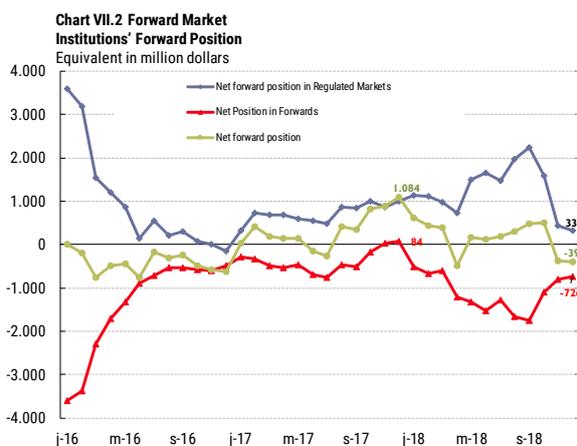


As far as forward markets are concerned, institutions ended December with a net short position of USD390 million, similar to the previous month. However, the long position in regulated markets went down, and was partially offset by a drop in the short position agreed in contracts with clients, “Forwards” (see ChartsVII.2 and VII.3).<sup>6</sup>

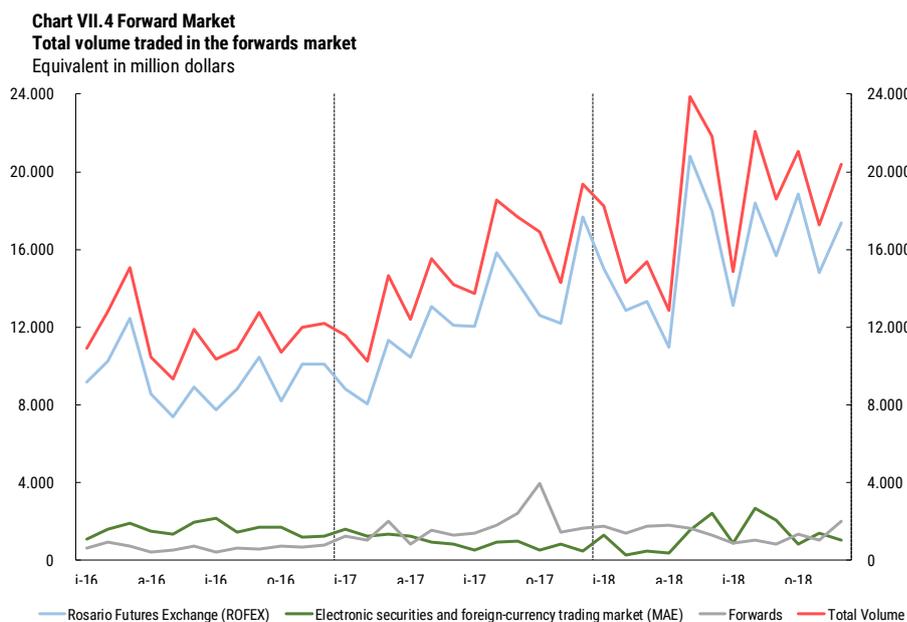
Foreign institutions made net purchases totaling USD315 million. In turn, national institutions posted net sales amounting to USD343 million.

<sup>5</sup>The Exchange Position is defined in the Annex to Communication "A" 6244, subparagraph 4.7. Communication "A" 6237—effective since May 4, 2017—provides that institutions with forex trading license may freely determine the amount and use of their liquid external assets in foreign currency (Exchange Position). However, institutions are still subject to the limits established for the Net Global Position in Foreign Currency.

<sup>6</sup>This information comes from the reporting system implemented by Communication "A" 4196, and supplementary regulations.



The volume traded in forward markets totaled USD20,400 million in December, i.e.: USD1,133 million on a daily basis. There was a 18% rise in the volume traded against November, which may be accounted for the volume traded in Rosario Futures Exchange (ROFEX), where around 85% of forward transactions are conducted (see Chart VII.4).<sup>7</sup>

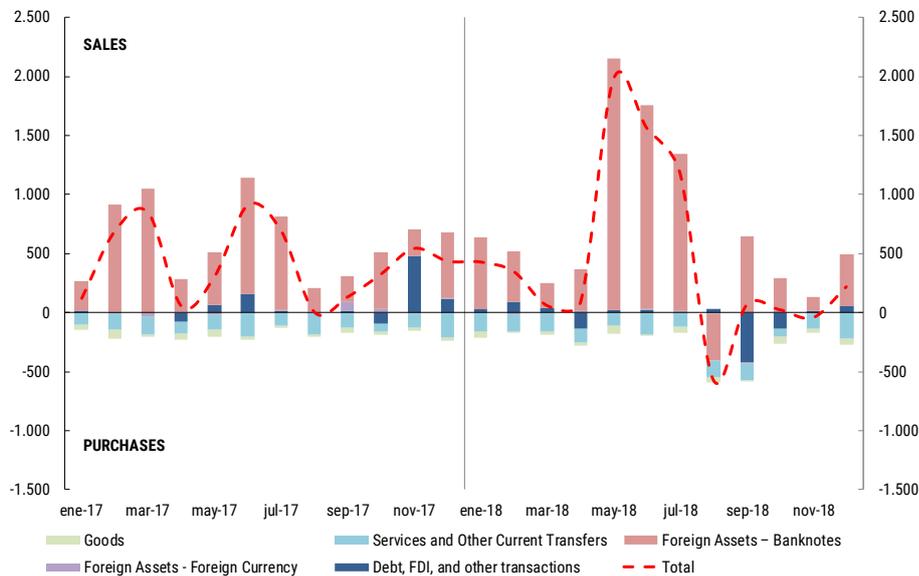


## VIII. General Government and the Central Bank

In December, General Government recorded net sales in the forex market for USD221 million, mainly due to pesification of domestic deposits in foreign currency (see Chart VIII.1).

<sup>7</sup>The chart includes the total volume traded in the ROFEX, the transactions arranged by institutions in the electronic securities and foreign-currency trading market (MAE in Spanish), and with Forwards. This information comes from the Forward Transactions Reporting Scheme (Communication "A" 4196, as amended) and postings on the websites of MAE and ROFEX.

**Chart VIII.1 Foreign Exchange Market**  
**General Government's Net Result**  
 Equivalent in million dollars



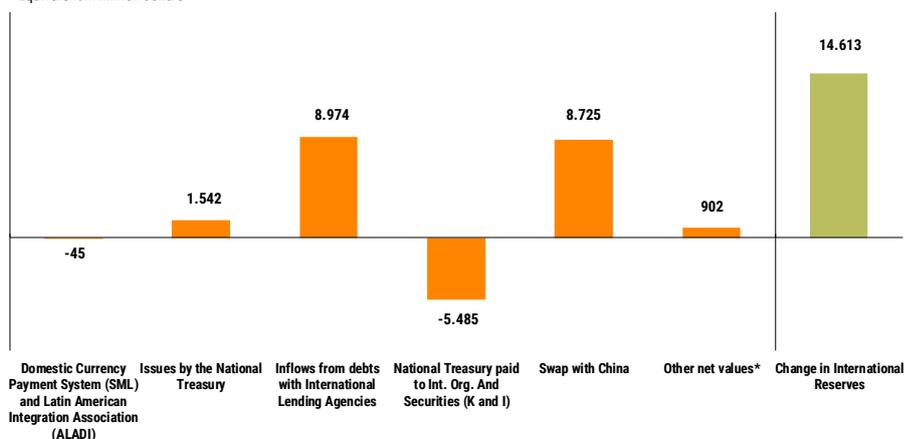
As regards the transactions conducted with BCRA's international reserves, the General Government recorded an inflow of USD7,640 million resulting from the third tranche of the stand-by program agreed with the IMF, and almost USD1,000 million for net income from international lending agencies. Likewise, it paid back principal and interest of debt securities (LETES in foreign currency, Discount and International Bonds) for USD3,500 million (see Chart VIII.2).

Given that the foreign exchange rate always remained within the “non-intervention range”, the BCRA did not intervene in the forex market.<sup>8</sup> December was marked by the inflow of funds from the swap agreement with The People's Bank of China for USD8,700 million. Additionally, the BCRA made payments for forex transactions arranged through the Domestic Currency Payment System (SML) in force with Brazil and Uruguay and through ALADI (Latin American Integration Association) for USD45 million.

Summing up, gross international reserves increased USD 14,613 million along December, totaling USD 65,806 million by the end of the month.

<sup>8</sup> Click the following link to see the definition of [non-intervention zone](#).

**Chart VIII.2 Change in BCRA's International Reserves – December 2018**  
Equivalent in million dollars

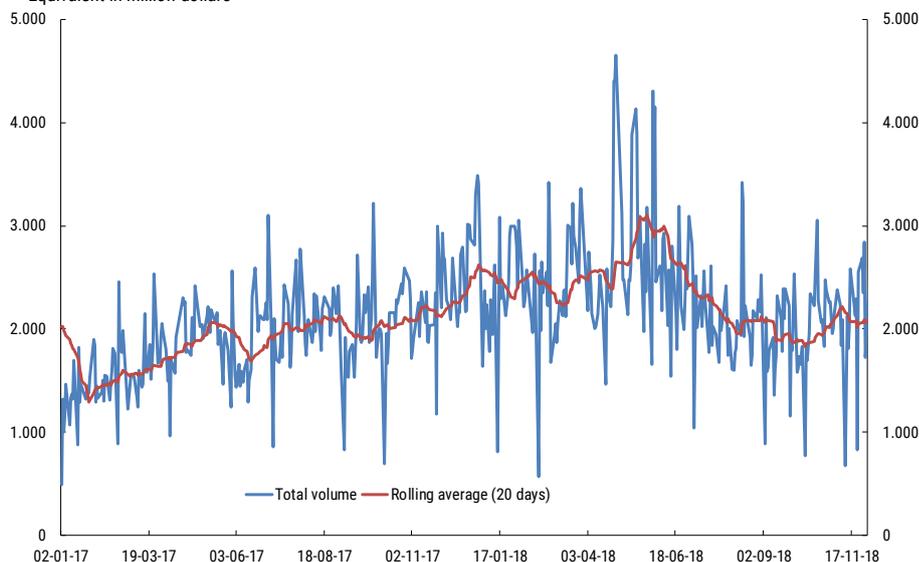


\*Note: It includes – among other transactions – changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's transactions.

## IX. Volumes Traded in the Foreign Exchange Market

In December, the volume traded in the forex market totaled USD40,700 million, down 18% y.o.y.<sup>9</sup> This total stands for a daily volume of about USD2,250 million, down 14% y.o.y. (see Chart IX.1).

**Chart IX.1 Foreign Exchange Market**  
Volume traded daily evolution  
Equivalent in Million dollars



The transactions between institutions and their clients, without the Central Bank's intervention, accounted for 71% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading

<sup>9</sup>In the BCRA's website there is a quarterly ranking of volumes traded with clients in the forex market broken down by institution (to access the Ranking, [click here](#)).

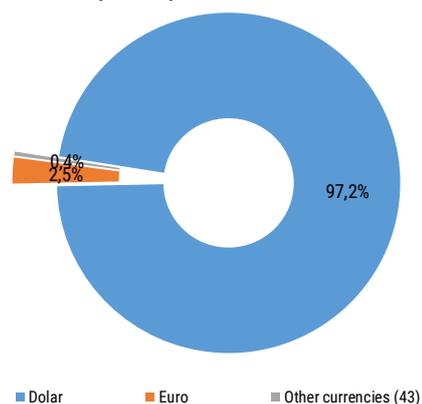
System—stood for the remaining 29% (see Chart IX.2); in both cases their share in the total remained unchanged against last year.<sup>10</sup>

As usual, most of the volume traded with clients was concentrated in a few number of institutions (the first ten accounted for 83% of such volume), most of which were denominated in US dollars (see Chart IX.3).

**Chart IX.2 Foreign Exchange Market  
Total Volume and Share. December 2018**



**Chart IX.3 Foreign Exchange Market  
Volume with clients by currency. December 2018**



Finally, 91% of foreign exchange transactions between financial institutions and foreign exchange agencies were made in the private sector. Public banks and foreign exchange institutions accounted for the remaining 9% (8.5% and 0.5%, respectively).

<sup>10</sup>The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, swap transactions with foreign parties (around USD3,800 million in December 2018), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD160 million for the month under study).