Evolution of the Foreign Exchange Market and Exchange Balance

March 2019

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Transactions in the Foreign Exchange Market and the Foreign Exchange Balance

Overview

Foreign Exchange Transactions and Foreign Exchange Balance in March 2019

- ✓ *Clients purchased around USD540 million from financial institutions in March. Given that the foreign exchange rate always remained within the "non-intervention range", the BCRA did not intervene in the forex market.*
- ✓ *Companies in the real sector were net sellers of foreign currency for nearly USD1,000 million.*
- ✓ *Within this group, the main sector with net sales in historical terms ("Oilseeds and Grains") recorded net sales for USD1,350 million, down 19% y.o.y., which could be accounted for by the settlement of liabilities and/or the purchase of assets abroad.*
- ✓ *Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD330 million. The USD2,100 million difference against net purchases in March 2018 continued being explained by fewer imports in the last few months.*
- ✓ *"Natural Persons" carried out net purchases totaling USD1,000 million. This 60% slide against purchases made in March 2018—USD2,500 million—may be explained by a drop in purchases of banknotes for saving and travelling abroad.*
- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net purchases of USD900 million exhibiting a reversal with respect of net sales for USD1,100 million in March 2018.*
- ✓ *In addition to sales on the spot market, financial institutions purchased USD380 million for forward transactions in foreign currency.*
- ✓ *The General Government recorded net payments for around USD800 million from debt securities, especially, Bills in foreign and domestic currency. Furthermore, it made net payments to international organizations for USD400 million.*
- ✓ *As a result of the transactions described above, gross international reserves decreased by USD1,828 million along March, totaling USD66,187 million by the end of the month.*

I. Introduction

This report analyses information on foreign exchange transactions made in March 2019 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.[1]

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 broken down 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.[2]

Section II deals with the changes in BCRA's international reserves and analyses the result of foreign exchange transactions for March; data are broken down by sector and by heading. In addition, this report contains "Box 1", which makes a comparative analysis between statistics published in the Balance of Payments and the forex market for the "Goods" heading in both cases.

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.[3]

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[1] Communication "A" 3840, as amended.

[2] Communication "A" 6244 . Sectors were grouped into: "Central Bank", "Institutions", "General Government", "Oilseeds and Grains", "Other Real Sectors", "Natural Persons", "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"**; **"Real Sector Non-Oilseeds and Grains"** 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".

[3] The Central Bank's website (www.bcra.gob.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 headings (to access the 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 "Publicaciones y

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 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.

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

Clients purchased around USD540 million from financial institutions in March. Given that the foreign exchange rate always remained within the “non-intervention range”, the BCRA did not intervene in the forex market.

BCRA’s international reserves fell USD1,828 million over the month mainly due to net settlements of securities of the General Government for USD800 million and to payment of interest to international organizations for around USD400 million (for further information, see Sections VII and VIII).

The following table is intended to analyze clients' purchases and sales through institutions in the forex market; such transactions implied a net demand amounting to USD540 million. 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 result—as informed by the institutions to the BCRA—is displayed vertically.

Table II.1 Foreign Exchange Market
Result of Institutions’ Transactions with Clients March 2019
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, and other transactions	Total
Non-Financial Private Sector	**1,2**	**-0,4**	**0,1**	**-0,8**	**-1,0**	**0,1**	**-0,9**
Oilseeds and Grains	1,3	0,0	0,0	0,0	0,0	0,0	**1,4**
Real Sector Non-Oilseeds and Grains	-0,1	-0,1	-0,2	-0,1	-0,5	0,6	**-0,3**
Natural Persons	0,0	-0,4	0,0	-0,6	-0,1	0,1	**-1,0**
Institutional Investors and Other	-0,1	0,1	0,2	-0,1	-0,3	-0,7	**-0,9**
General Government	**0,0**	**0,0**	**-0,1**	**0,5**	**0,0**	**0,0**	**0,3**
Institutions (Own Transactions)	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Institutions’ Result with Clients	**1,1**	**-0,4**	**-0,1**	**-0,3**	**-1,0**	**0,1**	**-0,5**

Note: (+) Net Sales; (-) Net purchases

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 forex market over March. This sector reported net inflows for USD1,350 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.

Estadísticas” section, “Sector Externo” / “Mercado de cambios” 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.

Since the date foreign exchange regulations were relaxed, “Real Sector Non-Oilseeds and Grains” 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 around USD500 million in March) in order to subsequently have the chance to make payments to their creditors with the funds so transferred. Furthermore, the companies in this sector have exhibited the highest amounts of foreign currency derived from inflows net of financial liabilities and foreign direct investment (FDI).

“Natural Persons” (residents) basically demand foreign currency for saving purposes (around USD600 million in March) and for making trips abroad (around USD400 million).

“Institutional Investors and Others” comprises investment funds, pensions funds, hedge funds, insurance companies, and other legal persons not included in the previous classifications—both residents and non-residents—whose most significant transactions involve changes in portfolio (net outflow of USD900 million in March).

Box 1/ Impact of the Ease of Regulations on the Foreign Exchange Balance of Goods Transactions

Regulations were eased gradually since December 2015; this impacted on foreign exchange statistics rather than on the foreign exchange market. As expected, amounts reported as “Collection on exports of goods” and “Payments for imports of goods” decreased their share in exports/imports of goods against what was observed during the years when there were foreign exchange controls. However, the net result of these transactions in the foreign exchange market (transactions under the “Goods” heading) is in line with the result of the trade balance stemming from customs statistics.

As shown in the charts appearing below, the levels reported as collections on exports and payments for imports of goods of the forex market started being separated from the customs levels of exports and imports as the main regulatory changes were made. Why?

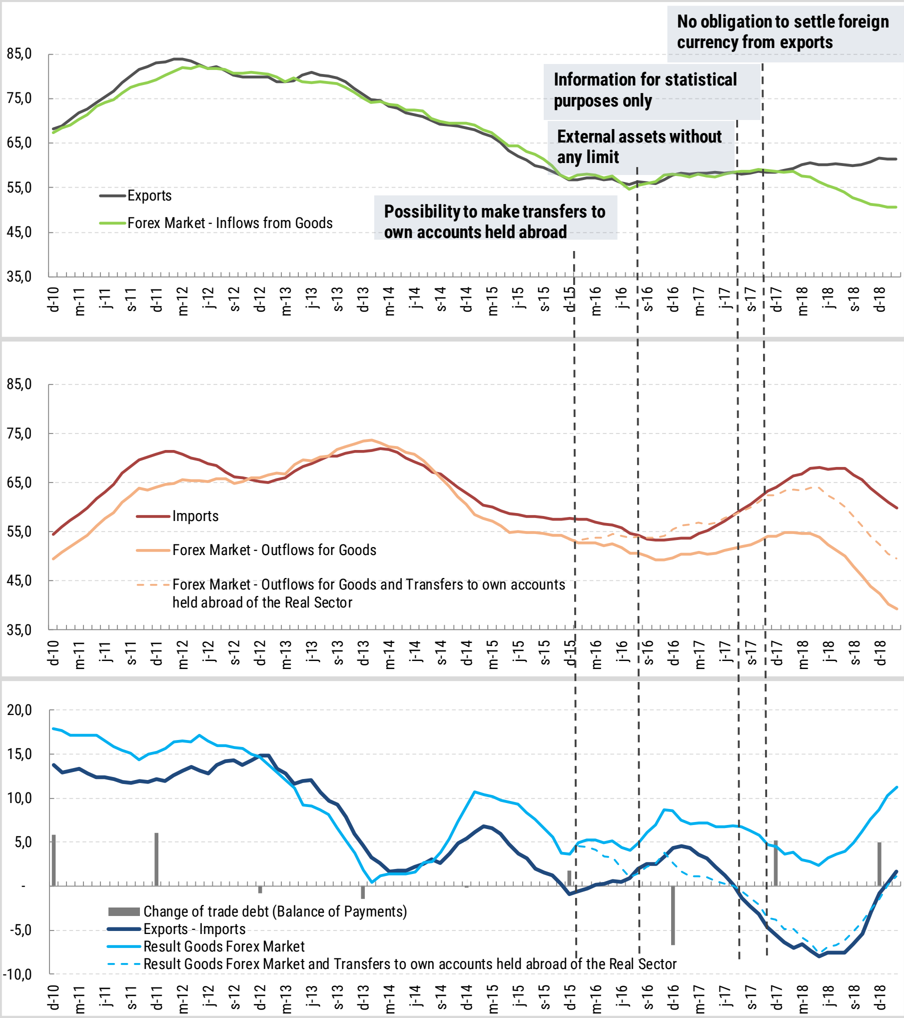
On the one hand, since the obligation to enter and settle collections on exports of goods was removed, companies in the real sector carrying out transactions abroad opted for not entering all their collections on exports into the local market and keeping a part of such amount in accounts held abroad to pay their foreign liabilities, including imports (thereby reducing transaction costs). This is the main reason accounting for the decrease in flows of collections on exports (light green line in the first chart); it also contributed to a reduction in flows of payments for imports (light red line in the second chart).

On the other hand, once it was possible to transfer, once again, funds to own accounts held abroad, importers started to make their payments under the headings included in “Goods” and to fund their accounts abroad for future payments of imports (this leads to less administrative burden when compared to reporting if they are paying imports). In addition, this is the main reason accounting for the reduction in the flows of payments for imports (light red line in the first chart).

As a result of this new administrative method, upon analyzing the flow of payments for imports made by companies in the real sector, it is necessary to consider their transfers—without any specific purpose—to their own accounts held abroad. However, even when including such transfers (dotted line in the second chart), these flows are separated from imports arising from customs statistics as it happens with exports.

The net result of these forex market transactions (inflows from goods minus outflows for goods and transfers to funds abroad without including any specific purpose) is in line with the result of the trade balance. In other words, no impact arising from easing the regulations has been observed on the net result of transactions for goods in the forex market.

Balance of Payments and Forex Market
Flows for Goods
In Billion USD — 12-month cumulative amount

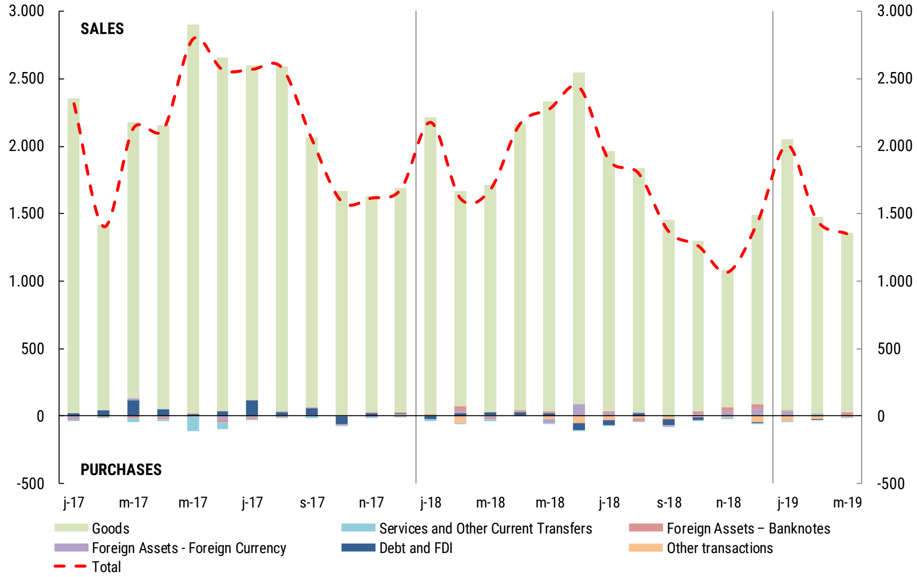


Source: BCRA and INDEC

III. Oilseeds and Grains

The “Oilseeds and Grains” sector recorded a USD1,350 million surplus in March (see Chart III.1) in spite of a fall of 19% y.o.y.

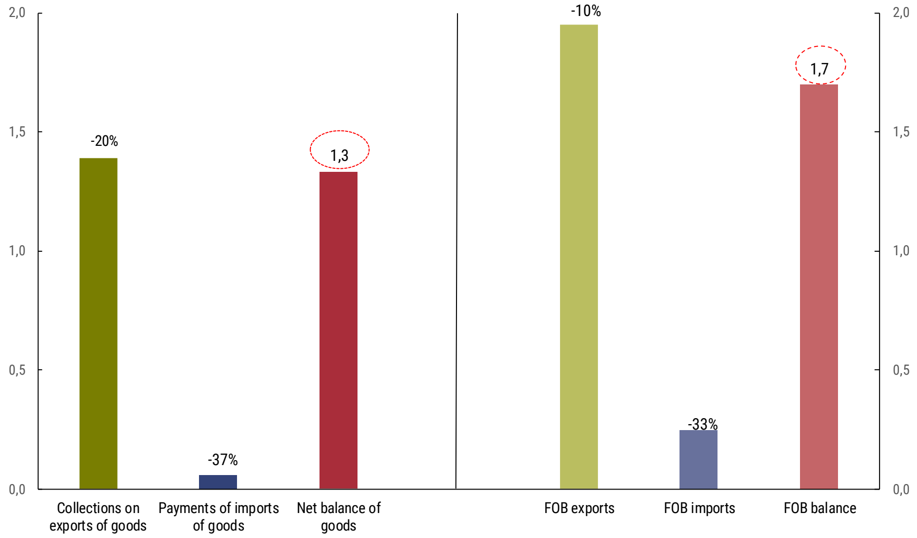
Chart III.1 Foreign Exchange Market
Oilseeds and Grains Net result of the sector
Equivalent in million dollars



In March, the sector reported collections on exports of goods for USD1,390 million (down 20% y.o.y.) and payments for imports of goods for USD60 million through the forex market (down 37% y.o.y.).

The sector's net result for "Goods" stood at USD1,330 million and was lower than the expected trade balance of the sector of USD1,700 million (exports for USD1,950 million, and imports for USD250 million). Lower net inflows of the forex market in relation to customs inflows (around USD400 million) could be explained by the settlement of liabilities and/or the purchase of assets abroad.

Chart III.2 Foreign Exchange Market and international trade
Oilseeds and Grains in march 2019
Billion USD

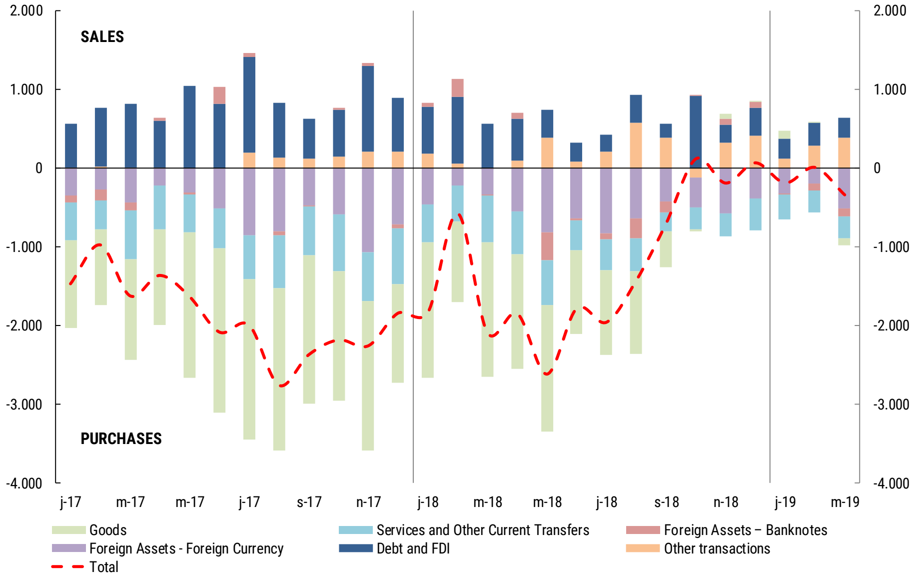


Note: own calculations for imports and exports

IV. Real Sector Non-Oilseeds and Grains

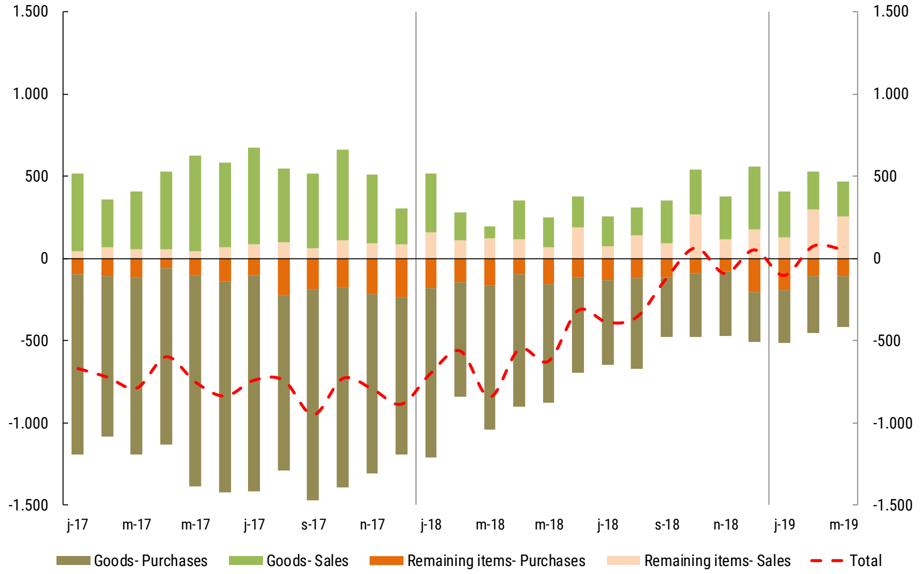
Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD330 million. The USD2,100 million difference against net purchases in March 2018 continued being explained by fewer imports in the last few months (see Chart IV.I).

Chart IV.1 Foreign Exchange Market
Real Sector Non-Oilseeds and Grains. Net result of the sector
Equivalent in million dollars



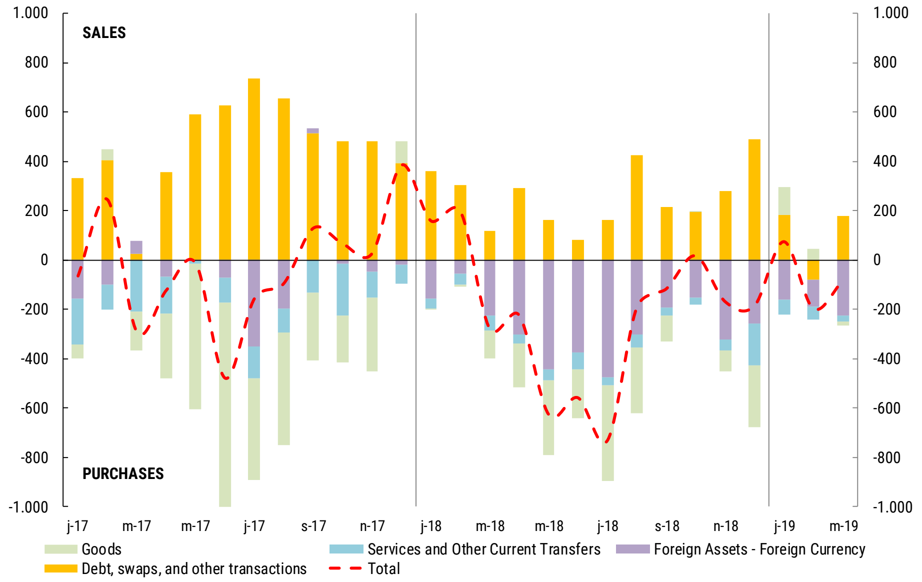
The "Automobile Industry" recorded net inflow for around USD60 million, exhibiting a reversal against the net outflow of USD850 million in March 2018 (see Chart IV.2) explained by fewer payments for goods and higher inflow from direct investment. Particularly, this sector reported collections on exports of goods for USD210 million and payments for imports of goods for USD310 million. These gross levels are not in line with estimates of exports/imports of goods (exports for around USD500 million and imports for around USD650 million). This may be explained by the fact that since regulations were eased the companies belonging to the sector have started to (i) regionally 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 could have been funded with collections on exports or by raising debts abroad without settling the resulting foreign exchange in the local market.

Chart IV.2 Foreign Exchange Market
Automobile Industry. Result of the sector
Equivalent in million dollars



In turn, companies belonging to the "Energy" sector recorded net purchases for around USD100 million, which may be explained by net purchases of banknotes and by transfers of funds to their own accounts held abroad against which they would pay part of their foreign debts. The movements described before were partly offset by net inflow derived from debt and direct investment by non-residents (see Chart IV.3)

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

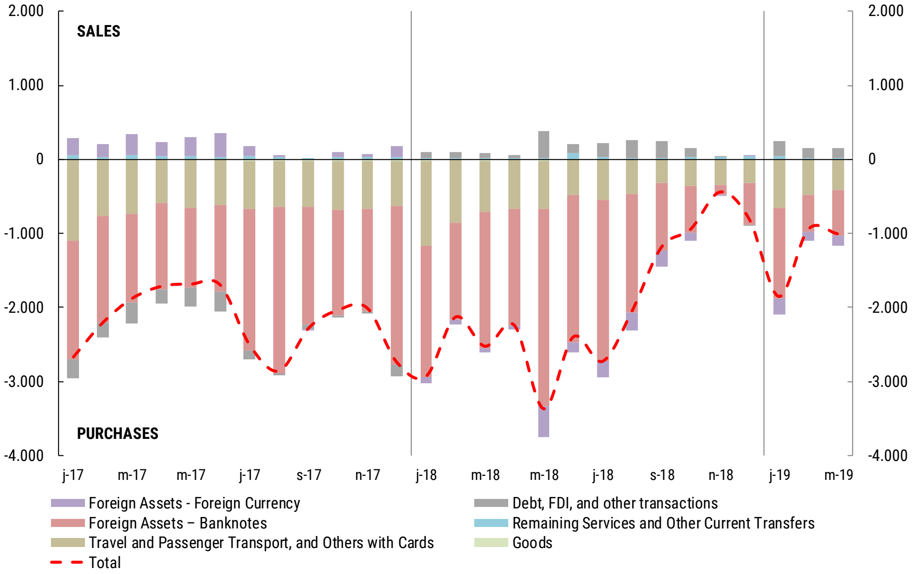


Finally, the remaining companies within the "Real Sector Non-Oilseeds and Grains" recorded net purchases for around USD300 million, down USD660 million y.o.y. This improvement was observed in the reversal of the flows reported within the concepts included in "Goods" for USD800 million (going from net payers to net sellers) and in lower net payments for services for USD270 million, partially offset by lower net inflows from financial loans for USD400 million.

V. Natural Persons

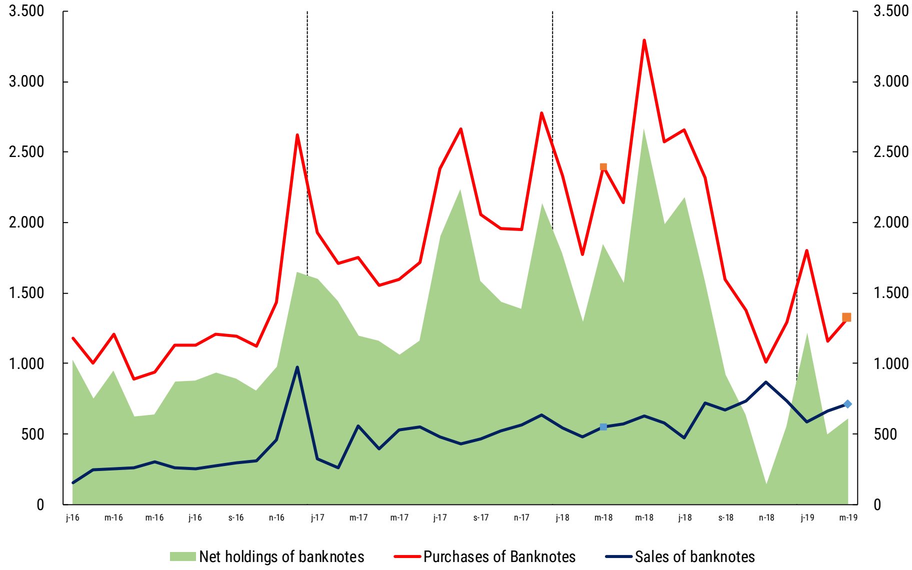
In March, the net demand for foreign currency by "Natural Persons" totaled USD1,000 million evidencing a level similar to that of the previous month but going doing 60% in y.o.y. terms (see Chart V.1)

Chart V.1 Foreign Exchange Market
Natural Persons. Net result of the sector
Equivalent in million dollars



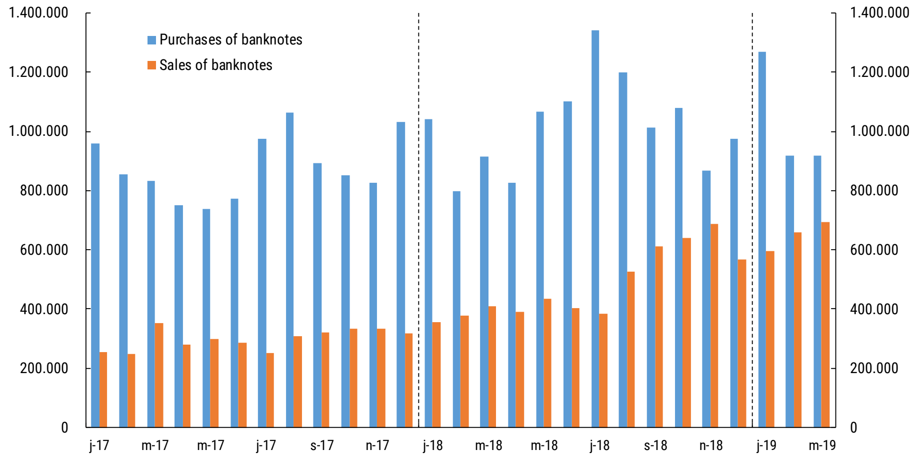
Net purchases of banknotes made by natural persons fell y.o.y. due to both fewer gross purchases (total of USD1,324 million) and more gross sales (USD712 million).

Chart V.2 Foreign Exchange Market
Natural Persons' holdings of banknotes in foreign currency
Equivalent in million dollars



The number of persons selling banknotes in the forex market rose for the third consecutive month, totaling 695,000 in March, up 70% against March 2018 when the figure stood at 433,000. In turn, 920,000 persons purchased banknotes in the forex market; an amount that remained practically unchanged against the previous month and in y.o.y. terms (see Chart V.3).

Chart V.3 Foreign Exchange Market
Natural Persons. Foreign Assets – Holdings of Banknotes
Number of People



As is usually the case, natural persons' foreign exchange transactions accounted for the lowest amounts: 63% of gross sales, and 70% of gross purchases in March were below USD10,000 (see Chart V.4 and Chart V.5). Gross sales per capita amounted to USD1,045, while gross purchases per capita stood at USD1,470.

Chart V.4 Foreign Exchange Market
Natural Persons. Purchases of banknotes by segment
Share by segment – Each segment shows monthly cumulative figures by client

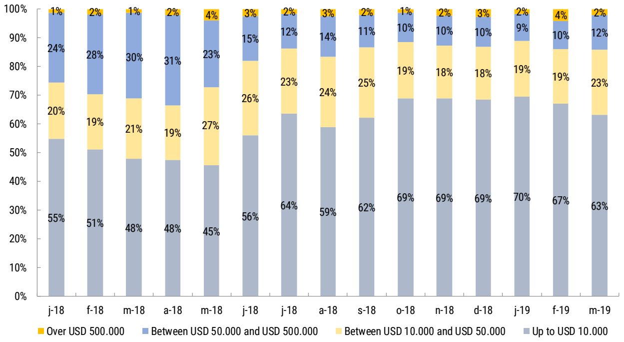
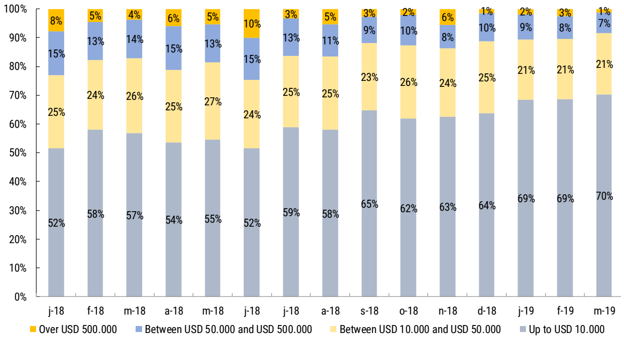


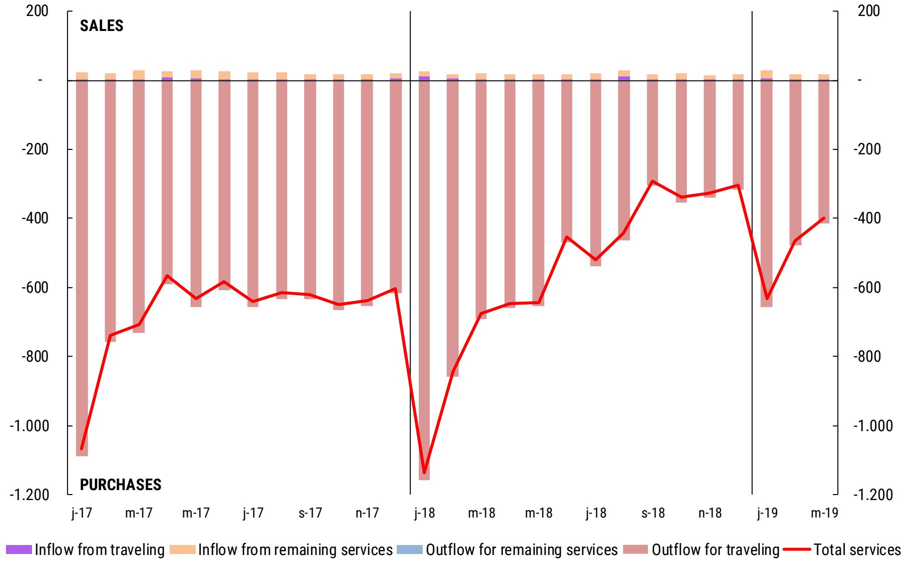
Chart V.5 Foreign Exchange Market
Natural Persons. Sales of banknotes by segment
Share by segment – Each segment shows monthly cumulative figures by client



In turn, natural persons' net outflows for payments of services totaled USD400 million, particularly of “Travel, and Other Expenses Paid with Cards”, which amounted to USD410 million, down 40% y.o.y. (see Chart V.6).[4]

[4]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. In turn, inflows of foreign exchange include non-resident remote purchases from Argentine suppliers. It is worth underscoring 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).

Chart V.6 Foreign Exchange Market
Natural Persons Services
Equivalent in million dollars



Finally, net inflows for primary and secondary income totaled USD10 million, basically as a result of retirement and pension collections from abroad.

VI. Institutional Investors and Others

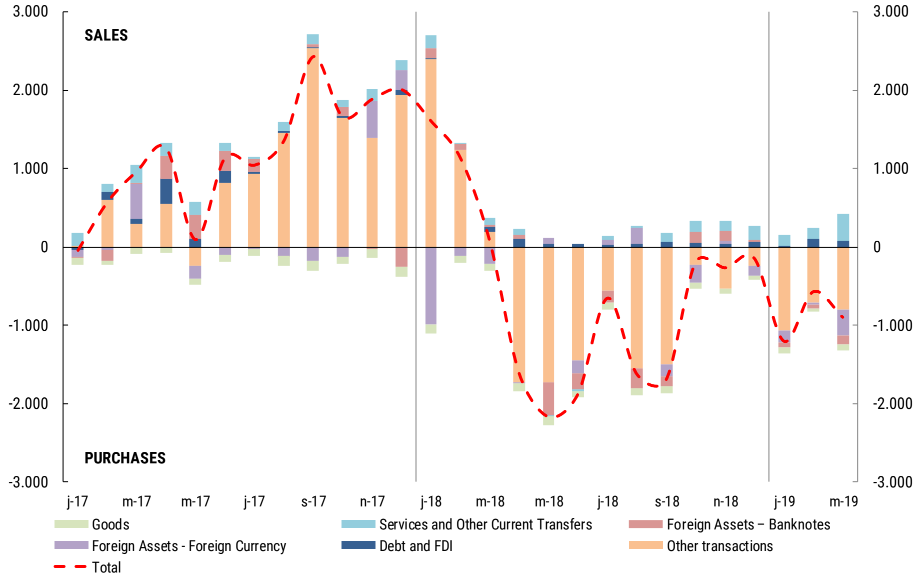
“Institutional Investors and Others”—both residents and non-residents—made net purchases of USD900 million exhibiting a reversal of net sales for about USD100 million evidenced in March 2018.

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

The heading “Other Transactions” in Chart VI.1 includes the purchase and sale of securities in the secondary market which, in the forex market, are registered under the name of the financial institution involved. The counterparties to these transactions can be non-financial private sector residents and non-residents and, therefore, they are included in “Institutional Investors and Others”. In March, these changes totaled a net outflow of USD680 million, going up in y.o.y. terms, when net outflows totaled USD230 million.

Finally, net purchases of banknotes by the "Investors and Others" sector equaled around USD120 million; however, gross purchases and sales exceeded USD1,450 million, respectively.

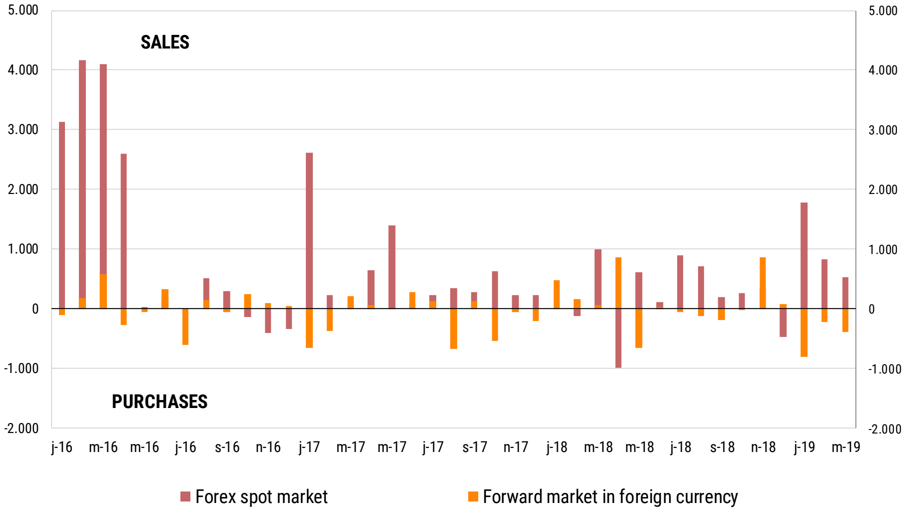
Chart VI.1 Foreign Exchange Market
Institutional Investors and Others' Net Result
Equivalent in million dollar



VII. Financial and Foreign Exchange Institutions

As in the previous two months, in March, institutions licensed to carry out forex transactions were net sellers in the forex market (mainly as a result of their transactions with clients) and purchasers in the forward market. Indeed, on this occasion, they sold USD540 million in the forex spot market and purchased around USD380 million in the forward market (see Chart VII.1.).

Chart VII.I Forex spot and forward market in foreign currency
Institutions
Equivalent in million dollars

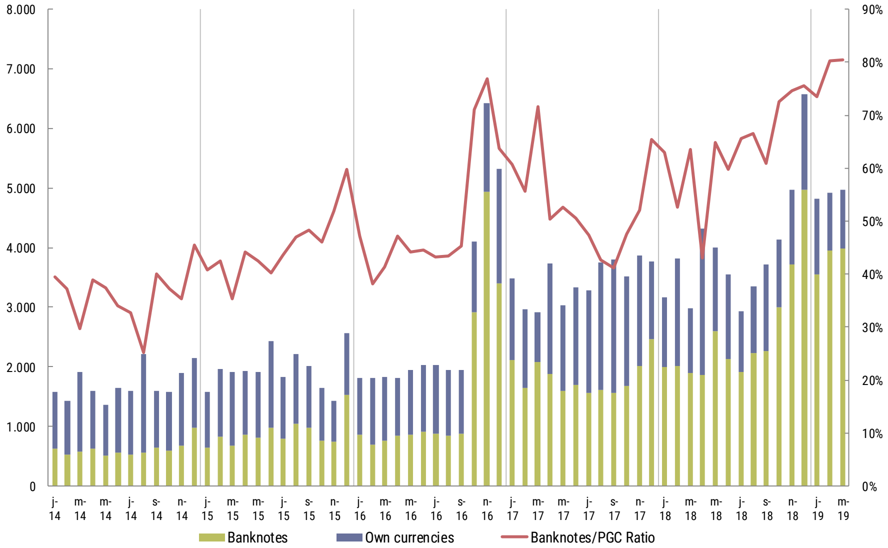


Regarding their own transactions, institutions used funds for underwriting securities in the primary market (around USD300 million), which were partially offset by net inflows from funds abroad arising from debts and direct investments by non-residents (USD320 million).

On the other hand, institutions ended March evidencing a General Exchange Position for USD4,963 million; from such amount, around USD4,000 million correspond to holdings of foreign currency banknotes; both levels are similar to those of the previous month (see Chart VII.2).[5]

[5]The General 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 (General Exchange Position). However, institutions are still subject to the limits established for the Net Global Position in Foreign Currency.

Chart VII.2 Exchange Balance
Institutions' Exchange Position (PGC)
Equivalent in million dollar



Financial institutions ended March exhibiting a net forward long position in foreign currency of USD1,002 million. Institutions purchased USD330 million in regulated markets and USD54 million from their clients directly (Forwards) over the month (see Charts VII.3 and VII.4).

Foreign institutions made net purchases for USD255 million. In turn, national institutions' purchases amounted to USD128 million.

Chart VII.3 Forward Market
Institutions' Forward Position
Equivalent in million dollars

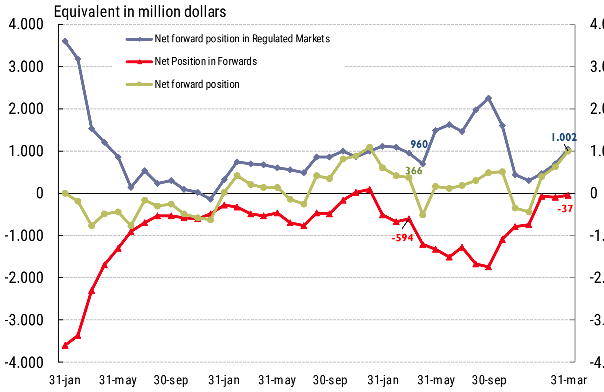
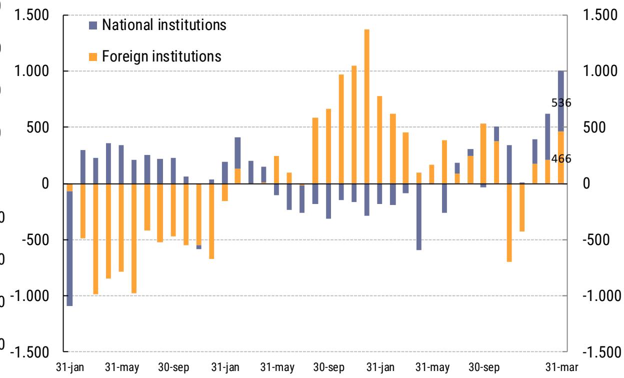
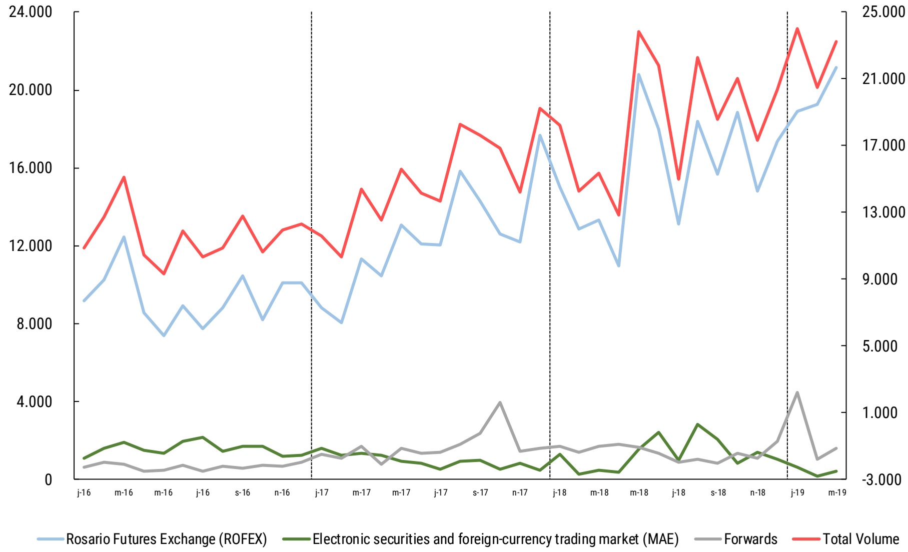


Chart VII.4 Forward Market
Forward Position by Type of Institution
Equivalent in million dollars



The volume traded in forward markets totaled USD23,219 million in March, which equals around USD1,200 million on a daily basis. [6] The total amount rose 13% against the previous month as a result of rises in all trading areas. As is usually the case, transactions carried out in the Mercado a Término de Rosario (ROFEX) accounted for 91% of the total volume (see Chart VII.5).

Chart VII.5 Forward Market
Total volume traded in the forwards market
Equivalent in million dollars

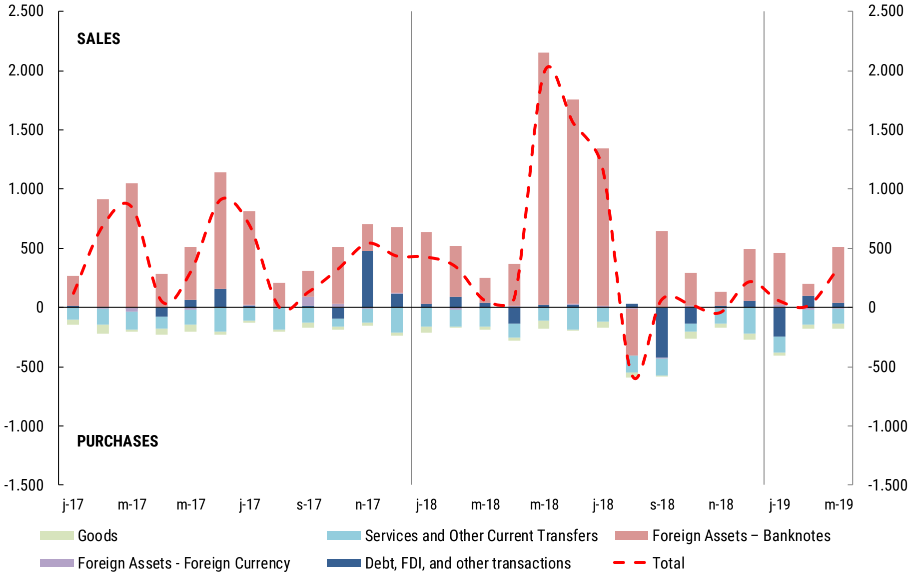


VIII. General Government and Central Bank

In March, the General Government recorded net sales in the forex market for USD330 million, mainly due to domestic deposits in foreign currency (see Chart VIII.1).

[6]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),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 transactions involving BCRA's international reserves, the General Government recorded net inflows of USD1,559 million from the issue of securities, particularly bills in foreign and domestic currency. Likewise, it paid back principal and interest of debt securities (particularly, LETES in foreign currency) for around USD2,400 million and to international organizations for USD400 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.[7] Furthermore, 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 USD53 million.

Finally, several foreign currencies depreciated against the US dollar thereby leading to a fall amounting to USD180 million; this was included in "Other Net Values" column in Chart VIII.2.

As a result of the transactions described above, gross international reserves decreased by USD1,828 million along March, totaling USD66,187 million by the end of the month.

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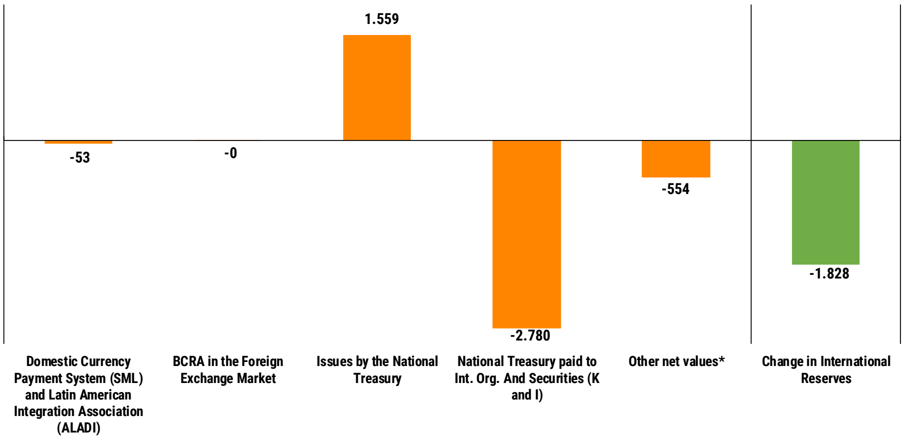
[7] Click the following link to see the definition of non-intervention range.

Chart VIII.2 Change in BCRA's International Reserves – March 2019
Equivalent in million dollars



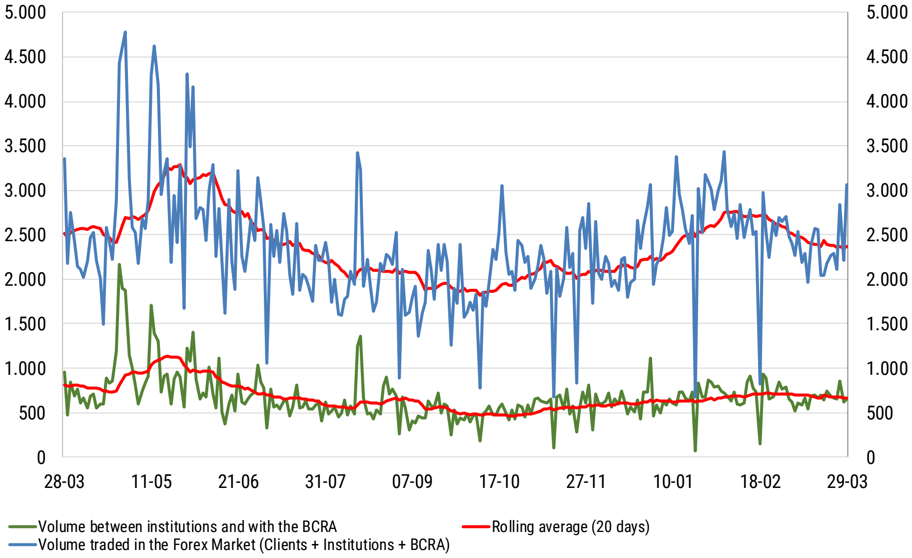
***Note:** It includes–among other transactions—changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's transactions.

IX. Volumes Traded in the Foreign Exchange Market

In March, the volume traded in the forex market totaled USD44,800 million, down 11% y.o.y. This total stands for a daily volume of about USD2,350 million, down 6% y.o.y. (see Chart IX.1). [8]

[8] 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**).

Chart IX.1 Foreign Exchange Market
Volume traded daily evolution
In million dollars



The transactions between institutions and their clients accounted for 72% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System—stood for the remaining 28% (see Chart IX.2). [9]

As usual, most of the volume traded between licensed institutions and their clients was concentrated in a few number of institutions (the first ten accounted for 83% of such volume) and in the foreign currency used; USD-denominated transactions had a 97% share in the total traded with clients (see Chart IX.3).

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[9] The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, swap transactions with foreign parties (around USD2,700 million in March 2019), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD240 million for the month under study).

Chart IX.2 Foreign Exchange Market
Total volume and share. March 2019

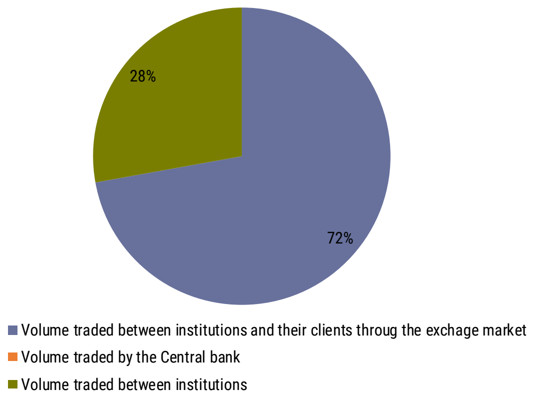
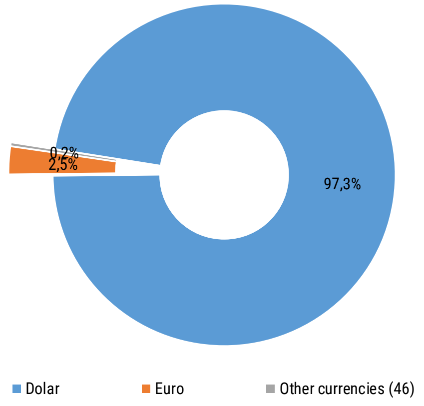


Chart IX.3 Foreign Exchange Market
Volume with clients by currency. March 2019



Finally, 95% of foreign exchange transactions between financial institutions and foreign exchange institutions were made in the private sector. Public banks and foreign exchange institutions accounted for the remaining 5% (4,7% and 0.3%, respectively).