Evolution of the Foreign Exchange Market and Exchange Balance

October 2018

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Transactions in the Foreign Exchange Market and the Exchange Balance

Overview

Foreign Exchange Transactions and Exchange Balance in October 2018

- ✓ *In October, companies belonging to the real sector were net sellers of foreign currency for around US$ 1.4 billion.*

- ✓ *Within this group, the main sector with a net supply in historical terms, "Oilseeds and Grains", recorded net sales for around US$ 1.3 billion, down 21% in year-on-year (y.o.y.) terms, possibly caused by the drought that affected the main crops in the 2018 agricultural production cycle.*

- ✓ *The remaining companies of the real sector ("Real Sector, Other") performed net sales for around US$ 100 million, and reversed their historical performance as net purchasers in the market. The difference with net purchases for US$ 2.2 billion recorded in October 2017 was mainly due to the curb on imports in recent months.*

- ✓ *"Natural Persons", who mainly demand foreign currency for saving purposes and for travels abroad, made net purchases for US$ 900 million, minimum level as from the regulatory flexibilization of the exchange market regulations in December 2015, and half the level recorded in October 2017.*

- ✓ *"Institutional Investors and Other", both resident and nonresident, demanded US$ 600 million in net terms, i.e. one third of the monthly average net outflow they recorded since the beginning of the episode of exchange rate instability last April.*

- ✓ *The exchange rate stood within the "non-intervention zone" and, as a result, the Central Bank of Argentina (BCRA) did not take part in the foreign exchange market and only made net sales to the National Treasury, the funds of which were used to honor various obligations in foreign currency.*

- ✓ *The exchange current account, comprising the net result of exchange transactions recorded as net exports of goods, and primary and secondary income in line with the definitions of the Balance of Payments, recorded a deficit of US$ 374 million, down US$ 1.9 billion against the deficit posted in October 2017.*

- ✓ *The capital and financial account of the "Non-Financial Private Sector" (SPNF) recorded a deficit of around US$ 1.3 billion, standing around US$ 2.1 billion below the monthly average of the first nine months of 2018, mainly due to lower net outflows for change of portfolio, by both residents and nonresidents, and to higher inflows from nonresidents' direct investment and from financial debt.*

- ✓ *The capital and financial account transactions of the "Financial Sector" resulted in a deficit of around US$ 1 billion, mainly accounted for by the increase in liquid external assets of institutions making up the Exchange Position (PGC) and for the primary market underwriting of securities.*

- ✓ *The foreign exchange capital and financial account of the public sector and the BCRA resulted in a surplus of around US$ 6.6 billion, mainly due to the disbursement of the second tranche of the Stand-By Agreement with the IMF for US$ 5.67 billion and to the inflow in foreign currency of the National Treasury for net issues of LETES amounting to around US$ 1.1 billion.*

- ✓ *As a result of these transactions, international reserves held by the BCRA increased by US$ 4.95 billion, closing October with a stock of US$ 53.95 billion.*

I. Introduction

This report analyzes the information on foreign exchange transactions made during October 2018. This information is gathered through the Foreign Exchange Transactions Reporting Scheme managed by the Central Bank of Argentina (BCRA). In addition, information about the movements in International Reserves is also used, resulting from either own transactions or from transactions made on behalf of the National Government.

The data collected include information on the exchange agent (natural or legal persons, and the sector they belong to, according to the report on their main activity submitted to the Tax Authority - AFIP), the amounts traded, the currency denomination and also the reason behind the foreign exchange transaction (heading), be it export or import of goods and/or services, saving, payment of financial obligations, among others, defined in agreement with the "Balance of Payment and International Investment Position Manual – Sixth Edition (BPM6)" of the International Monetary Fund.

Section II includes, in the first place, an analysis of the foreign exchange market according to the aggregate of transactions of the sector related to the agent involved. Priority is given to the presentation of the net result by sector since, as from July 2017, the information of reasons (headings) for the transactions was no longer a sworn statement but it was only required for statistical purposes and this circumstance limits the historical comparison of the series. This situation does not alter the total net result by sector.[1] This section also includes the volume traded in the exchange market, defined as the addition of transactions made by institutions with their clients, both gross purchases and gross sales, the transactions between institutions and the transactions between the latter and the BCRA.

Lastly, Section III illustrates the Exchange Balance, which comprises the transactions made by the institutions with their clients through the foreign exchange market and the transactions made by the Central Bank, either on its own behalf or on behalf of the National Government; the format for the presentation of the exchange balance is based on the analytical presentation by components and institutional sector of the Balance of Payments.

The information mentioned in this report is available to the reader in the online Annexes and in the statistical series related to Foreign Exchange Market and the Exchange Balance.[2]

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[1] Communication "A" 6244. The sectors were grouped as follows: "Central Bank", "Institutions", "General Government", "Oilseeds and Grains", "Real Sector, Other", "Natural Persons" and "Institutional Investors and Other".

In order to identify the statistical annexes where each sector is included: **"General Government"** is made up by the so-called "Public Sector" and the transactions made by the National Treasury directly with the BCRA; **"Oilseeds and Grains"**; **"Real Sector, Other"** 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 Other)", "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"; **"Natural Persons"** is a subset of the "Non-Financial Private Sector, Other"; and **"Institutional Investors and Other"** includes "Insurance", "Financial and Foreign Exchange Institutions" making their own transactions as well as the rest of the "Non-Financial Private Sector, Other".

[2] The Central Bank's website (www.bcra.gob.ar) contains the different statistical series of the Foreign Exchange Market (to access the statistical series, **click here**), together with an annex broken down by sector and main headings (to access the statistical Annex of the exchange balance, **click here**). In addition, it is possible to go over the "Main differences between the balance of payments and the exchange balance" (available in the "Publications & Statistics" section, subsection "Foreign Sector" / "Foreign Exchange Market", to access the text, **click here**). This section shows the result of the foreign exchange market broken down according to the main operating sectors, in order to differentiate net purchasers from net sellers.

II. Result by Sector and by Volume Traded in the Foreign Exchange Market
II.a. Result by Sector in the Foreign Exchange Market

In October, the Central Bank implemented a new monetary policy regime based on a stringent control of monetary aggregates, supplemented by a definition of a non-intervention zone in the exchange market.[3] During the month under analysis, the exchange rate stood within this non-intervention zone and, consequently, the Central Bank did not take part in this market and only made direct sales to the National Treasury, the funds of which were used to honor various obligations in foreign currency.

In this context, companies belonging to the real sector were net sellers of foreign currency for around US$ 1.4 billion.

Within this group, the main sector with a net supply in historical terms, "Oilseeds and Grains", recorded net sales for around US$ 1.3 billion, down 21% in year-on-year (y.o.y.) terms, possibly caused by the drought that affected the main crops of 2018 agricultural production cycle (see Chart II.1).

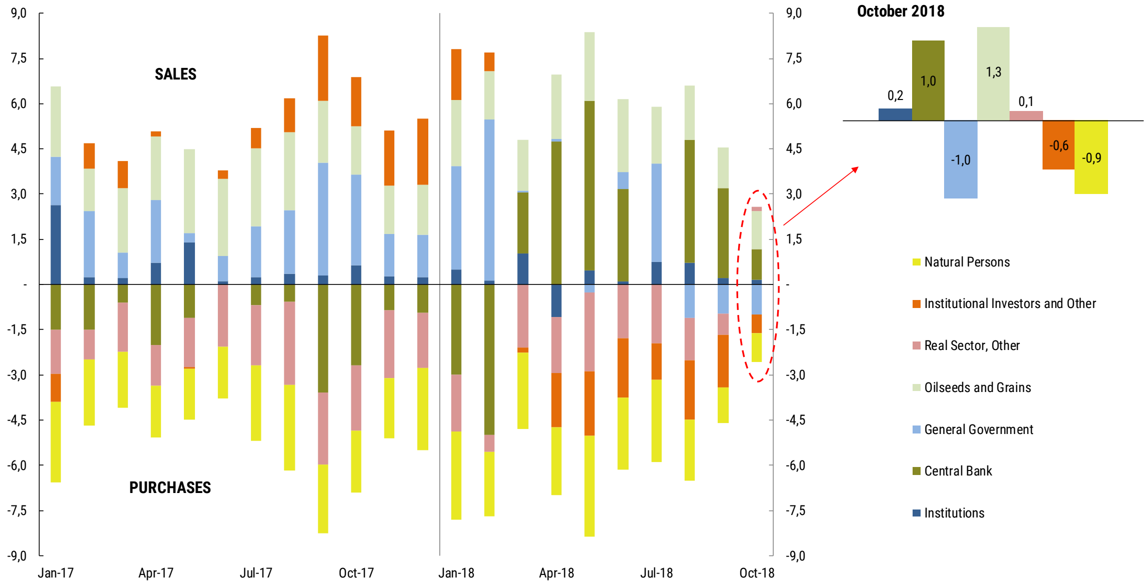
The remaining companies of the real sector ("Real Sector, Other") performed net sales for around US$ 100 million, and reversed their historical performance as net purchasers in the market. The difference with net purchases for US$ 2.2 billion recorded in October 2017 was mainly due to the curb on imports in recent months.

"Natural Persons", who mainly demand foreign currency for saving purposes and for travels abroad, made net purchases for US$ 900 million, minimum level as from the regulatory flexibilization of the exchange market regulations in December 2015, and half the level recorded in October 2017.

"Institutional Investors and Other", both residents and nonresidents, demanded US$ 600 million in net terms, i.e. one third of the monthly average net outflow they recorded since the beginning of the episode of exchange rate instability last April.

[3] Click the link to see the definition of non-intervention zone.

Chart II.1 Foreign Exchange Market
Result Broken Down by Main Sectors
Million dollars



II.b. Volumes Traded in the Foreign Exchange Market

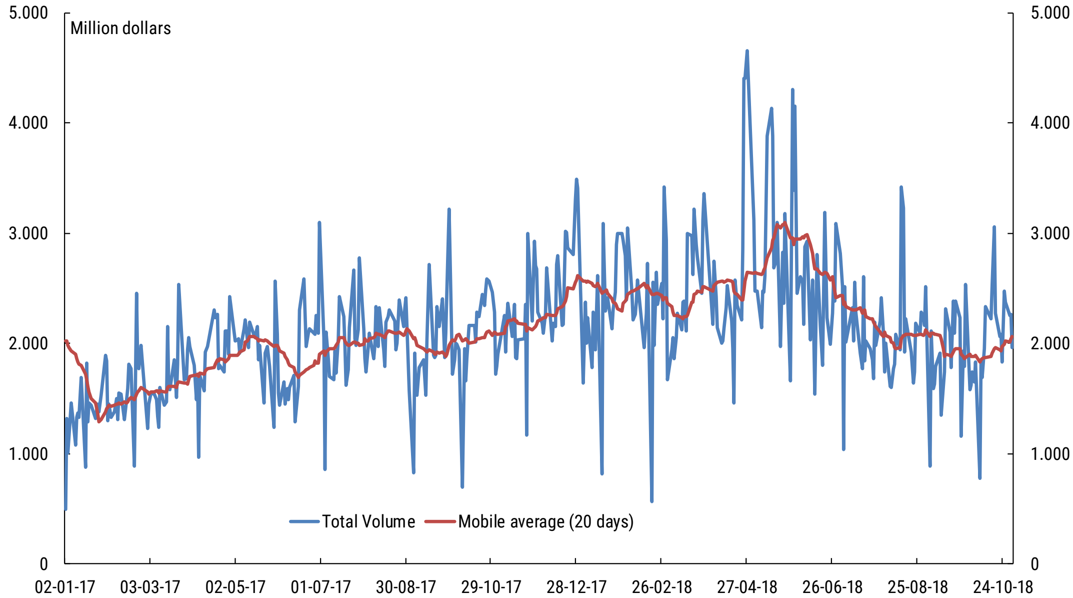
Within the framework of this report, the volume traded in the exchange market is defined as the addition of transactions made by institutions with their clients, both gross purchases and gross sales, the transactions between institutions and the transactions between the latter and the BCRA.[4]

In October, the volume traded in the foreign exchange market totaled US$ 44.51 billion, up 2% y.o.y.[5] This total means that, once again, the daily volume reached US$ 2 billion, a value similar to that of October 2017, after the peak observed during the months of exchange instability (an average of US$ 2.7 billion in the second quarter of the year, see Chart II.2).

[4] It is worth noting that the volume traded between institutions and the BCRA implies the absolute value of the daily net balance in order to count only foreign exchange transactions against pesos, aiming at removing from the analysis any transactions where there are changes of instrument with no difference as to the exchange rate agreed upon, for example, in the case of swaps.

[5] The Central Bank's website contains the quarterly ranking broken down by institution for the volume traded in the foreign exchange market with clients (to access the Ranking, **click here**).

Chart II.2 Foreign Exchange Market Volume Daily Evolution



Without the intervention of the Central Bank, transactions between institutions and their clients accounted for 76% of the total volume, while transactions between institutions, mainly through the Electronic Trading System (SIOPEL), accounted for the remaining 24% (see Chart II.3).[6]

As usual, the volume traded between authorized institutions and their clients was highly concentrated in terms of both number of entities (the first ten institutions accounted for 80% of the volume) and foreign currency used (see Chart II.4).

[6] The record for underwriting of Central Bank Bills, the swap transactions of clients with other countries that totaled US$ 3.6 billion in October 2018, and the record of foreign currency purchases to be delivered to the institution to pay the balance in foreign currency for the use of cards abroad, which is estimated to stand at around US$ 170 million in October 2018, are excluded from the volume traded by authorized institutions and their clients.

Chart II.3 Foreign Exchange Market
Total Volume and Share. October 2018

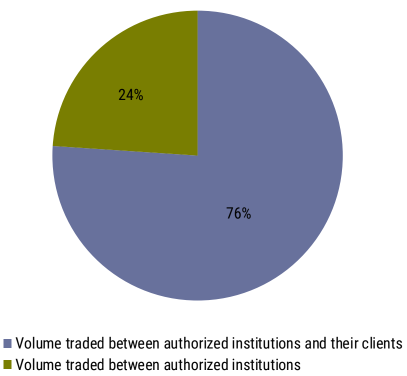
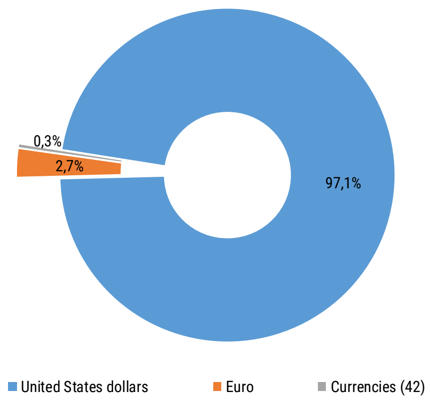


Chart II.4 Foreign Exchange Market
Volume with Clients Broken Down by Currency. October 2018



Lastly, 96% of foreign exchange transactions between financial and exchange institutions was arranged through private banks.

III. Exchange Balance

The exchange balance includes the transactions carried out by institutions with their clients through the foreign exchange market and those carried out by the Central Bank, either on its own behalf or on behalf of the National Government. The format for the presentation of the exchange balance is based on the analytical presentation by components and institutional sector of the Balance of Payments.

III. a. Exchange Current Account

In October, current account transactions on the exchange balance evidenced a deficit of US$ 374 million, going down by around US$ 1.9 billion against the same month of 2017, due to the reversal in the result of the "Goods" account and the reduction of the deficit in the "Services" account.

Exchange Current Account
In million of dollars

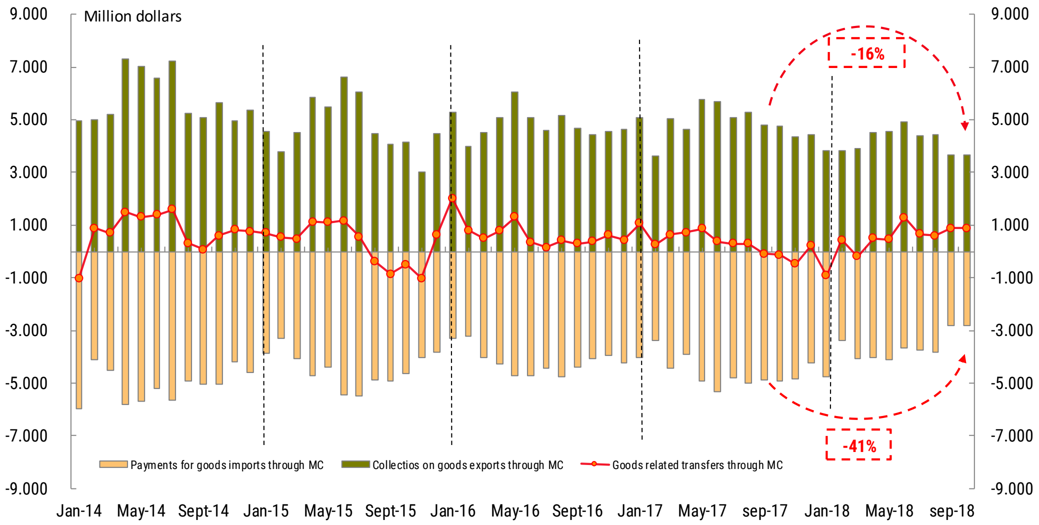
Fecha	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Exchange Current Account	**-2.258**	**-2.713**	**-1.765**	**-1.947**	**-964**	**-1.689**	**-1.502**	**-2.151**	**-387**	**-1.156**	**-396**	**106**	**-374**
Goods	-132	-476	220	281	436	-182	508	467	1.280	670	594	891	1.098
Services	-983	-951	-891	-1.440	-1.272	-1.017	-911	-969	-815	-749	-689	-359	-478
Primary Income	-1.173	-1.310	-1.118	-807	-146	-506	-1.114	-1.654	-933	-1.091	-317	-440	-1.024
Secondary Income	30	24	25	18	18	16	15	5	81	15	15	15	30

III. a.1. Goods

Generally speaking, the "Goods" section of the exchange balance includes the sales of foreign currency through the foreign exchange market reported by the client to the institution as "collections on goods exports" and the purchases of foreign currency reported as "payments of goods imports".

In October, transactions related to transfers of "Goods" on the exchange balance exhibited net inflows for US$ 1.1 billion and, as it had occurred in previous months, the year-on-year drop in payments of imports exceeded the drop in collections on exports (see Chart III.1).[7]

Chart III.1 Exchange Balance
Goods-Related Transfers

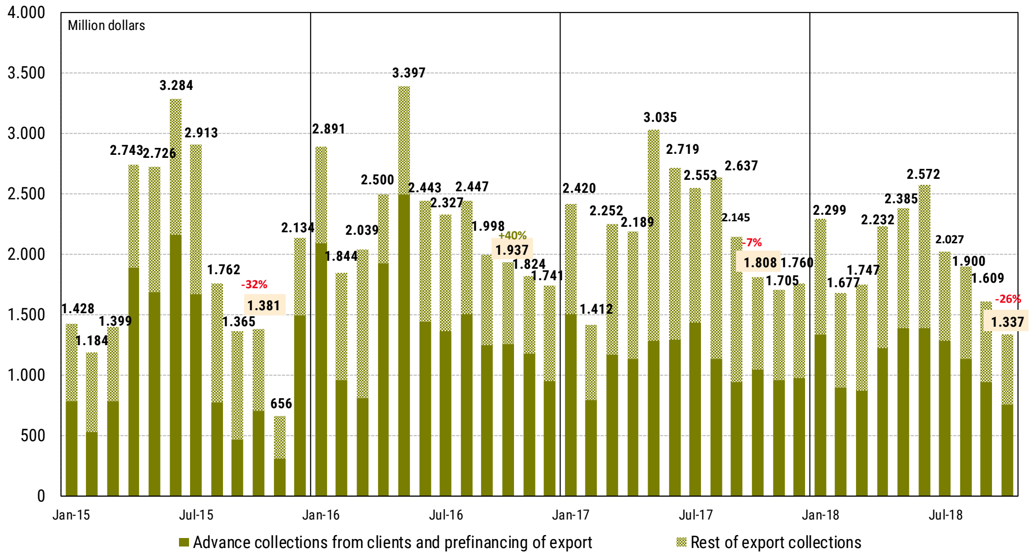


III. a.1.1. Collections on Goods Exports

In October, the inflows of "Oilseeds and Grains", the most relevant sector in terms of receipts from goods exports, recorded a 26% y.o.y. drop, which was probably caused by the drought that affected the main crops in the 2018 production cycle (see Chart III.2). These foreign currency settlements stood US$ 500 million below the exports reported by the sector during the month, which might imply a debt cancellation or an increase in the assets abroad. In year-to-date terms, foreign currency inflows amounted to US$ 19.78 billion, down 15% y.o.y., in line with the exports recorded.

[7] In order to relate these statistical data with the information on customs flows reported by INDEC, the effect of financing transactions not arranged through the foreign exchange market as well as the collections and payments carried out through accounts settled abroad on the external assets and liabilities position should also be taken into account.

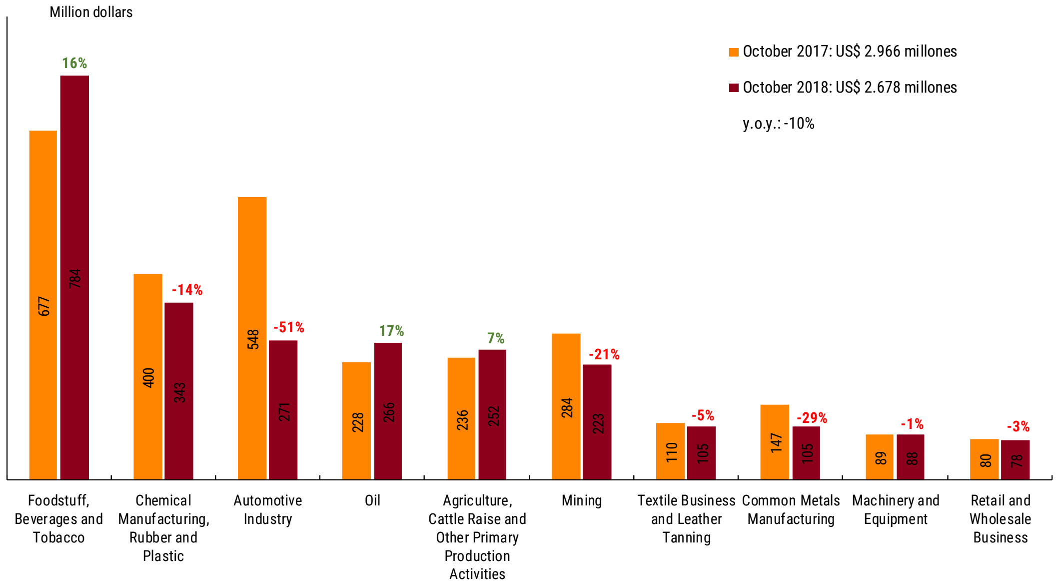
Chart III.2 Exchange Balance
Collections on Goods Exports by the Oilseeds and Grains Sector



In October, the share of collections before shipment of the sector expanded 5% against the figure recorded in the same period of 2017, to the detriment of prefinancing granted by the domestic market, which might be anticipating a change in the financing method for its exports.

The foreign currency settlement for the remaining exporting sectors is illustrated in Chart III.3. The exchange balance in terms of collections on goods exports, except for “Oilseeds and Grains”, amounted to US$ 2.68 billion, down 10% against the figure recorded in October 2017.

Chart III.3 Exchange Balance
Collections on Goods Exports (excluding “Oilseeds and Grains”)



III. a.1.2. Payments for Goods Imports

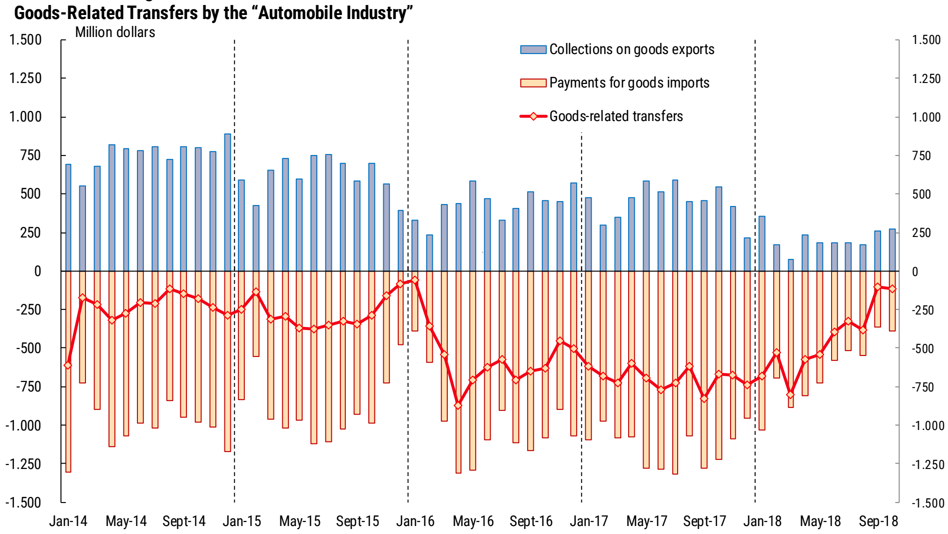
Purchases recorded as payments for goods imports went down 41% against the level observed in the same month of 2017. These transactions do not include the payment of imports made from accounts of residents abroad (see Section III.b.1 Non-Financial Private Sector's Foreign Exchange Capital and Financial Account).

The abovementioned year-on-year drop mainly resulted from falls across the board in all sectors, mainly in "Automobile Industry", "Machinery and Equipment", "Chemical, Rubber and Plastic Industries", "Energy" and "Commerce"; altogether, these five sectors accounted for 80% of the total contraction.

It should be considered that the year-on-year drops in both the flows from collections on exports (down 51%) and the payment of imports (down 68%) of the "Automobile Industry", not observed in the same proportions in the cross-border flows, are mainly due to the fact that the companies of this sector were released from the obligation to settle collections on exports[8], resulting in a change of behavior among agents. In this sense, this sector started to offset regionally their commercial liabilities and receivables within the same group, thus making foreign exchange transactions for the resulting net amount, and to make payments for goods imports through accounts abroad, which are funded with collections on exports that were not cleared into the country or an increase of debt with related companies not cleared into the domestic market, among others.

As a result of the foregoing, the "Automobile Industry" made net payments for goods amounting to US$ 117 million in October, down US$ 560 million against the demand corresponding to the same month of 2017.

Chart III.4 Exchange Balance
Goods-Related Transfers by the "Automobile Industry"



In turn, the "Chemical, Rubber and Plastic Industries" and "Machinery and Equipment" made payments of imports through the foreign exchange market amounting to US$ 506 million (down 28% y.o.y.) and US$ 301 million (down 44% y.o.y.), respectively.

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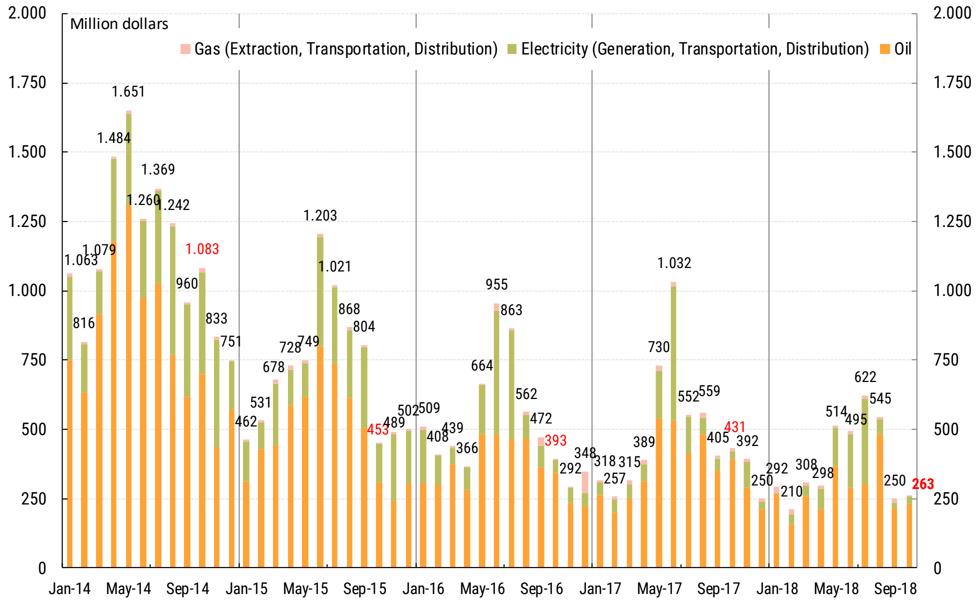
[8] Executive Order No. 893/17.

In addition, the companies belonging to the “Energy” sector recorded payments for goods imports amounting to US$ 263 million, down 39% against the same month of 2017 (see Chart III.5).

As regards this group of companies, it should be taken into account that part of their external obligations for the purchase of goods is paid from own accounts abroad, funded mainly with purchases of foreign currency in the domestic market using the headings included in the financial account, in addition to funds resulting from placement of debt securities and from not clearing into the country the total amount of their collections on exports.

Chart III.5 Exchange Balance
Payments for Goods Imports of the “Energy” Sector



III. a.2. Services, Primary Income and Secondary Income

The net outflows of the “Services” account dropped by US$ 500 million (down 51%) against October 2017, recording a change similar to the one observed in the last three months (see Chart III.6), mainly due to the contraction observed in the “Travel and Other Expenses Paid with Cards” [9] account, particularly in the case of payments of goods and services for travels abroad, since the payments corresponding to remote consumption not related to travel services would be posting less remarkable changes.[10]

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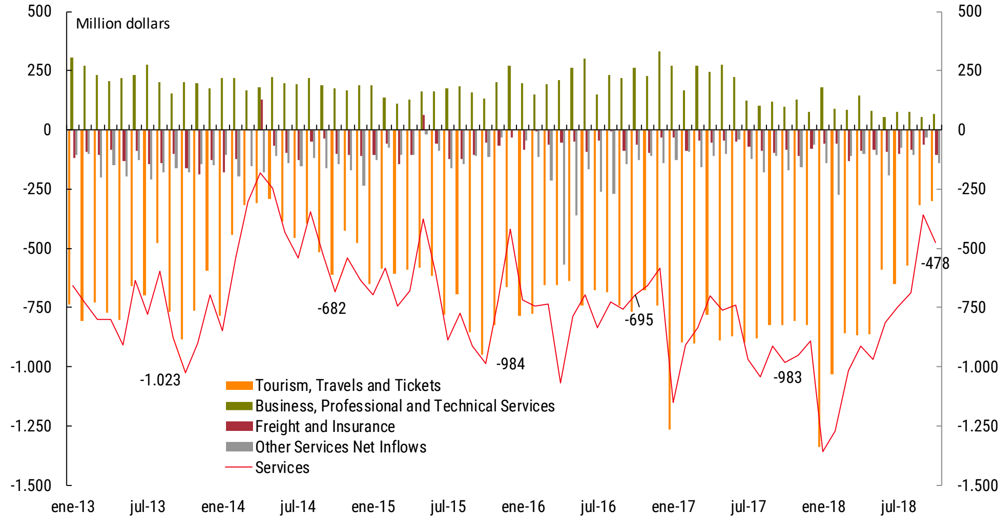
[9] It is worth pointing out that the transfers made to foreign countries in order to settle the balances with international credit card issuers include both the purchases made by residents travelling abroad and the remote purchases made from foreign suppliers. In turn, the inflows include the remote purchases made with cards by nonresidents from Argentine suppliers.

[10] As regards the flows for travel, passenger transport and other payments abroad made with cards, it is important to bear in mind the information included in Box 1 of the Foreign Exchange Market and Exchange Balance Report of January 2018 and the entry in the Blog called “Ideas de Peso” (Information about the Argentine Peso), “How much do Argentinians spend when travelling abroad? How much do foreigners spend when visiting our country?”. When analyzing the result of “Travel and Passenger Transport”, the collection and payments made outside the foreign exchange market should be considered, especially because estimates suggest that Argentinians mainly resort to the foreign exchange market while nonresidents tend

Chart III.6 Exchange Balance
Net Inflows from Services



In turn, transactions related to primary income recorded a net outflow of US$ 1.02 billion in October. The net payments for "Interest" totaled US$ 980 million, out of which 90% were made by the "Public Sector and the BCRA".

Lastly, the gross transfers of profits and dividends through the foreign exchange market totaled US$ 24 million, thus recording an 86% drop against the same period of 2017.

III. b. Foreign Exchange Capital and Financial Account

The transactions of the foreign exchange capital and financial account on the exchange balance recorded a surplus of US$ 5.01 billion in October, related to the net inflows from the issues of the "Public Sector and the BCRA", mainly deriving from the disbursements made by the IMF.

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to use alternative channels. Likewise, it must also be considered that the service exchange account includes payments for non-travel related services (for example, virtual e-commerce).

Exchange Balance
Capital and Financial Account
In millons of dollars

Date	oct-17	nov-17	dic-17	ene-18	feb-18	mar-18	abr-18	may-18	jun-18	jul-18	ago-18	sep-18	oct-18
Foreign Exchange Capital and Financial Account	**3.331**	**4.750**	**1.174**	**7.773**	**68**	**1.235**	**-4.273**	**-4.663**	**12.134**	**-2.930**	**-5.345**	**-4.124**	**5.013**
Financial sector	306	-337	289	667	-1.128	580	-1.534	586	378	98	-781	-372	-961
Non-Financial Private Sector	-566	-645	-1.221	-846	-215	-2.644	-3.939	-6.213	-5.083	-4.415	-3.900	-3.441	-1.281
Public Sector and BCRA	2.664	3.487	2.748	9.092	580	2.089	1.488	3.949	16.060	1.232	-1.852	-31	6.608
Other Net Movements	927	2.246	-642	-1.140	831	1.209	-288	-2.984	778	154	1.187	-280	646

III. b.1. Non-Financial Private Sector's Foreign Exchange Capital and Financial Account

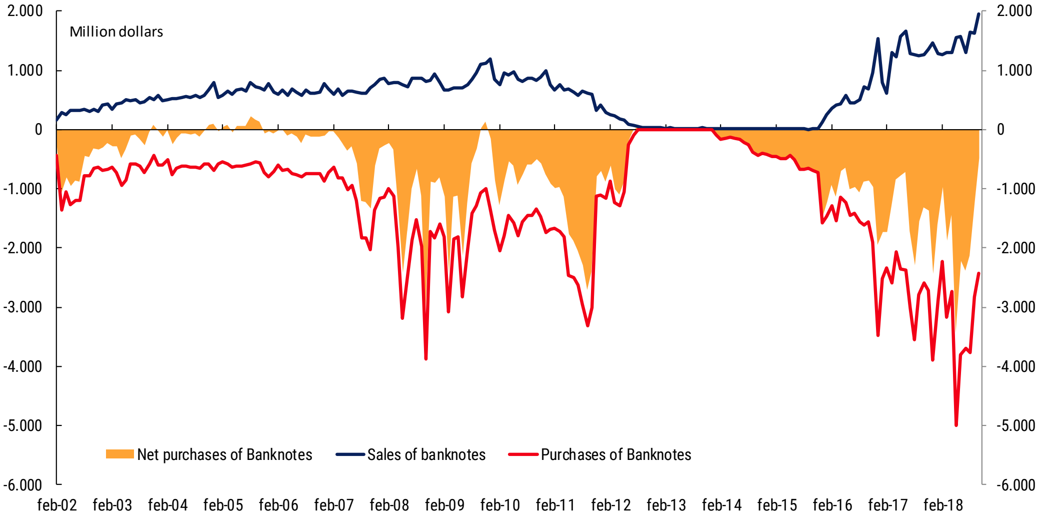
The reduction of deficit of the capital and financial account of the "Non-Financial Private Sector" (SPNF) against the values observed in previous months was basically explained by lower net outflows due to change of portfolio by both residents and nonresidents, and to higher inflows from direct investments by nonresidents and from financial debt.

Exchange Balance
Non-Financial Private Sector
In million de dollars

Exchange Balance	oct-17	nov-17	dec-17	jan-18	feb-18	mar-18	apr-18	may-18	jun-18	jul-18	aug-18	sep-18	oct-18
Foreign Exchange Capital and Financial Account	**-566**	**-645**	**-1.221**	**-846**	**-215**	**-2.644**	**-3.939**	**-6.213**	**-5.083**	**-4.415**	**-3.900**	**-3.441**	**-1.281**
Foreign Exchange Capital Account	**6**	**20**	**6**	**13**	**20**	**10**	**21**	**6**	**24**	**28**	**17**	**13**	**-238**
Foreign Exchange Financial Account	**-572**	**-665**	**-1.227**	**-859**	**-234**	**-2.654**	**-3.960**	**-6.219**	**-5.107**	**-4.443**	**-3.917**	**-3.454**	**-1.042**
Direct investment by non-residents	120	174	268	91	102	149	113	174	211	149	229	198	516
Investment of non-residents portfolio	824	1.113	605	533	253	264	-242	-1.363	-848	-1.064	-646	-1.285	-831
Financial debt and lines of credit	-145	115	57	74	220	16	76	-161	-358	-258	-10	-250	275
Debt of other International Organizations and others	168	104	40	14	13	4	75	24	23	0	-2	-15	0
Formation of external assets	-1.950	-1.926	-2.737	-3.124	-1.343	-2.464	-2.055	-4.616	-3.074	-3.351	-2.790	-1.979	-1.163
Exchanges for transfers abroad	-779	-1.015	-869	510	-302	-440	-1.667	407	31	247	494	624	-39
Purchase and sale of securities	1.191	770	1.410	1.042	823	-182	-260	-684	-1.092	-165	-1.192	-747	199

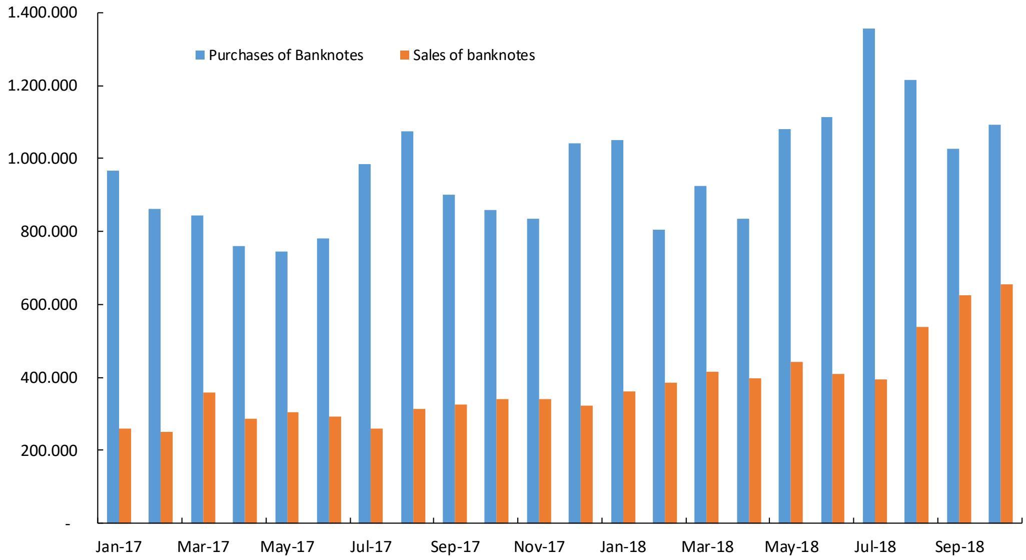
The net purchases of foreign assets by residents were broken down into net acquisition of banknotes for US$ 475 million (see Chart III.7) and net acquisitions of foreign currencies for US$ 689 million.

Chart III.7 Exchange Balance
Transactions of Banknotes in Foreign Currency by the Non-Financial Private Sector (SPNF) through the Foreign Exchange Market



In gross terms, purchases of banknotes by residents totaled US$ 2.43 billion, down US$ 400 million against September. Given the increase in the number of purchasers (up 60,000) (see Chart III.8), the average purchase per client went down by 19%, standing at US$ 2,200.

Chart III.8 Foreign Assets Transactions with Banknotes
Number of customers per month



Besides, 98% of the clients who purchased banknotes in October spent up to US$10,000, accounting for 41% of banknote purchases (see Chart III.9).

Chart III.9. Purchase of Banknotes by SPNF- Stratified
Share by stratum - strata defined by monthly cumulative per customer

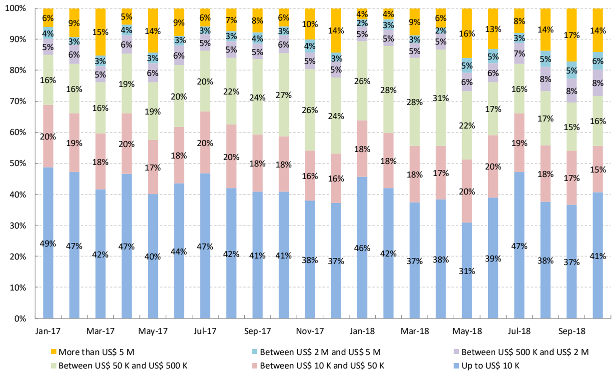
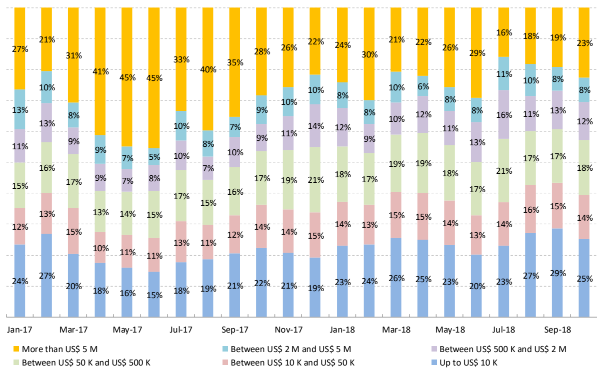


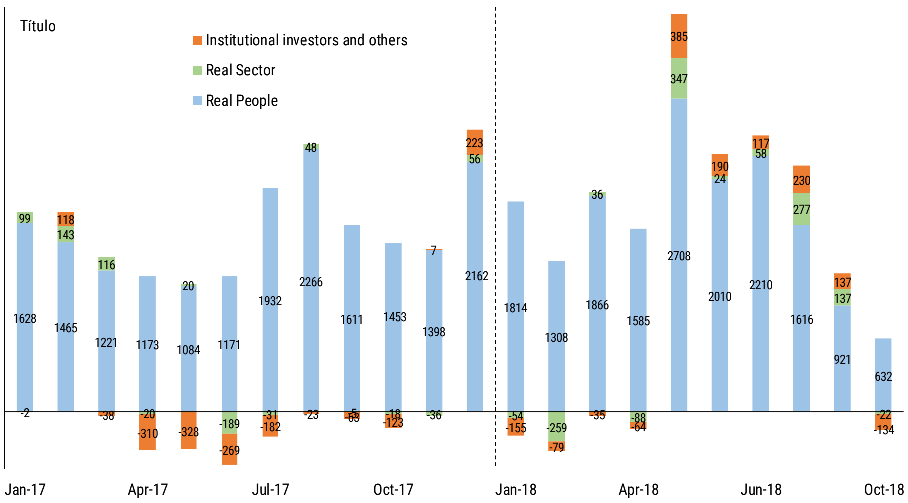
Chart III.10. Sale of Banknotes by SPNF- Stratified
Share by stratum - strata defined by monthly cumulative per customer



In turn, sales increased against September in terms of both amount (rise of around US$ 400 million) and number of clients (rise of around 20,000 clients). As regards amounts, the share of clients with sales over US$ 2 million in October went up 4 percentage points (p.p.) against September, to the detriment of the lower segments (see Chart III.10).

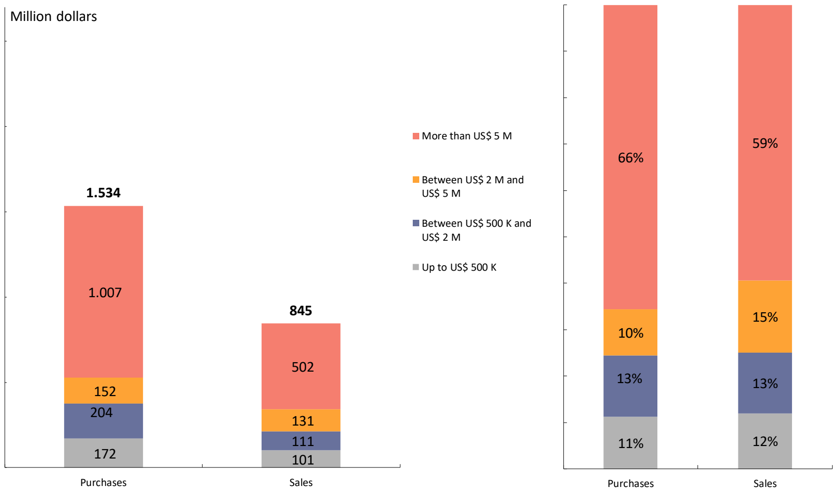
Unlike the previous five months, the companies belonging to the “Real Sector, Other” and “Institutional Investors and Other” recorded net sales of banknotes (see Chart III.11). In the same line, “Natural Persons” posted the lowest level of net purchases since April 2016.

Chart III.11 Exchange Balance
Net Purchases of Banknotes Broken Down By Sector



In turn, gross transfers abroad without reporting a specific use for the funds totaled US$ 1.53 billion. Moreover, clients with a monthly purchase over US$ 2 million accounted for 76% of total transfers (see Chart III.12).

Chart III.19 Exchange Balance
Freely-available Foreign Currencies in the Foreign Exchange Market-October 2018

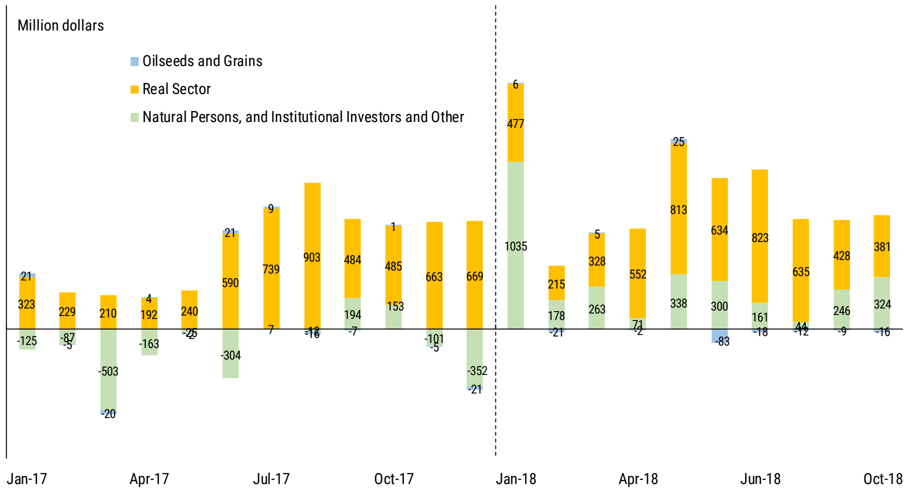


Transactions related to fund transfers from own accounts abroad totaled US$ 845 million and were mainly carried out, as well, by clients who sold over US$ 2 million during the month (accounting for 74% of the total). In addition to these flows, it is estimated that two thirds of the transactions made without reporting a specific use for the funds, which therefore are not included in the result of this account, might correspond to repatriation from residents (around US$ 600 million).

At sector level, "Real Sector, Other" and "Natural Persons, and Institutional Investors and Other" were the main net purchasers of foreign currency, while "Oilseeds and Grains" recorded net repatriation of foreign currency in the month under analysis (see Chart III.13).

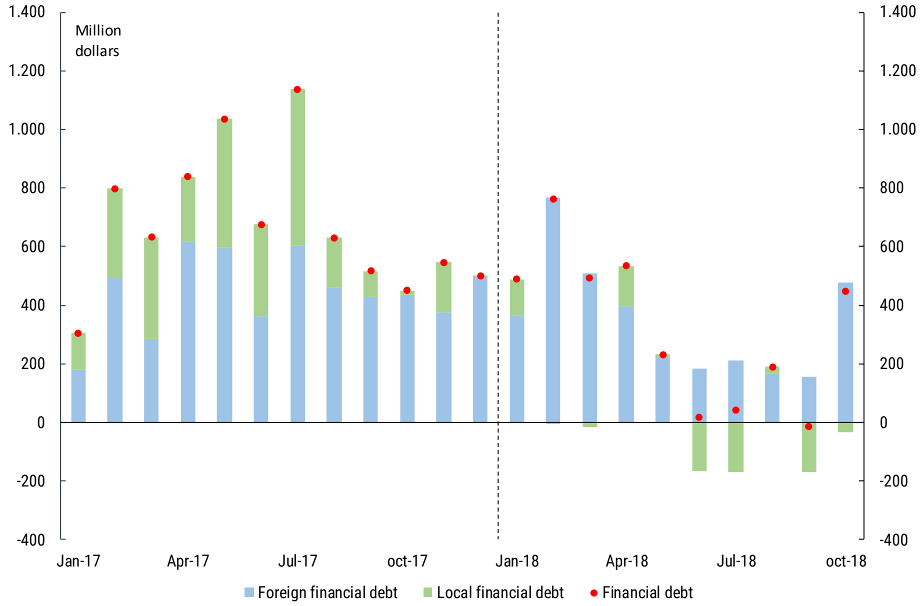
It is important to highlight that a sizable part of the funds transferred by the companies belonging to the "Real Sector, Other" was used for the payment of external obligations from the foreign accounts to which they are transferred, either for commercial or financial purposes, such as the payment of goods and services imports, rents, debt securities and loans.

Chart III.13 Exchange Balance
Net Purchases of Foreign Currency Broken-Down By Sector



As regards financial debt, there were net inflows from loans and debt securities from abroad for US$ 478 million and payment of domestic loans for US$ 32 million[11] (see Chart III.14). In turn, debt inflows were mainly observed in the "Automobile Industry" and "Oil" sectors.

Chart III.14 Exchange Balance
Financial Debt and Debt Securities (Domestic and Foreign) of the Non-Financial Private Sector

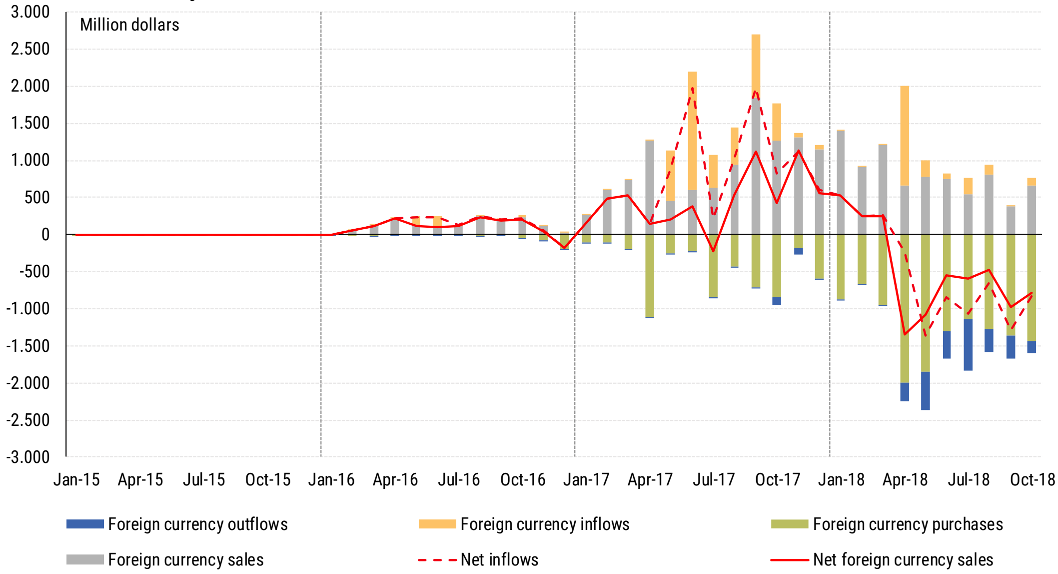


In relation to flows from investments by nonresidents, there were net outflows in the foreign exchange market for the seventh consecutive month, basically due to net outflows from portfolio investments, which were partially offset by net inflows from direct investments (see Charts III.15 and III.16).

In October, net outflows from portfolio investments by nonresidents were mainly due to the purchase of foreign currency from holdings in pesos (US$ 785 million) and to the outflow of funds deposited in foreign currency (US$ 46 million).

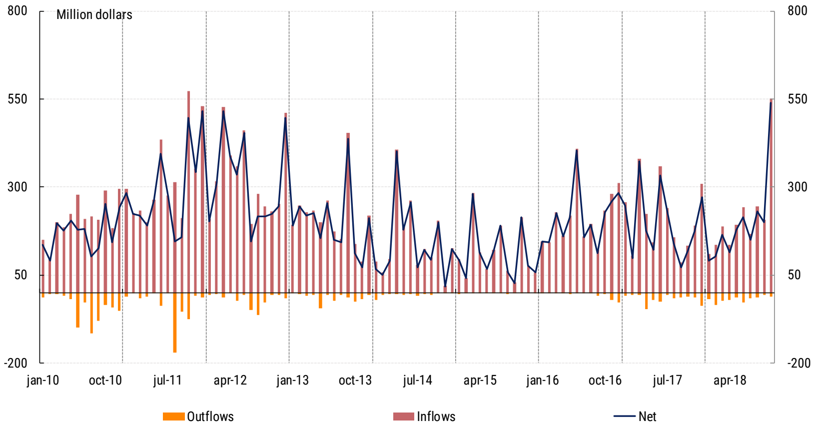
[11] This excludes the purchase of foreign currency by clients to be delivered to the institution to pay the balance in foreign currency due to the use of cards abroad, which was calculated to stand at around US$ 170 million.

Chart III.15 Exchange Balance
Investments by Nonresidents. Portfolio



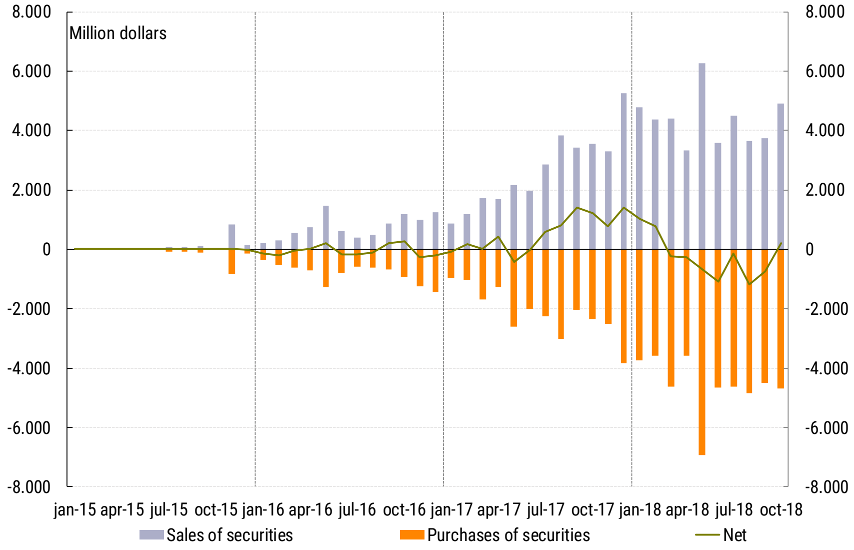
In turn, the transactions related to direct investments by nonresidents resulted from gross inflows for US$ 524 million and the repatriation to foreign countries for US$ 8 million. The main beneficiaries of the new investments were the sectors of "Manufacture of Common Metals" (US$ 300 million) and "Oil" (US$ 106 million). Altogether, both sectors accounted for 75% of the inflows under this heading.

Chart III.16 Exchange Balance
Investments by Nonresidents. Direct



Lastly, the foreign currency flows from the operations with financial entities' securities[12] in the secondary market posted a reversal against the figures recorded in the previous seven months (see Chart III.17).

Chart III.17 Exchange Balance
Purchase and Sale of Financial Entities' Securities (Secondary Market)



III. b.2. Financial Sector's Foreign Exchange Capital and Financial Account

In October 2018, the capital and financial account transactions of the "Financial Sector" resulted in a deficit of US$ 961 million, mainly accounted for by the increase of liquid external assets of the institutions making up the Exchange Position (PGC)[13] for US$ 540 million and by the primary market underwriting of securities for US$ 487 million. In turn, these movements were partially offset by the inflows from financial loans and debt securities for US$ 42 million and direct investments for US$ 23 million.

The financial institutions' PGC stock totaled US$ 4.28 billion by the end of October 2018[14]. Out of such total, 73% corresponded to holdings of banknotes in foreign currency (see Chart III.18). This stock of banknotes is usually held by the institutions to address potential withdrawals of domestic deposits in foreign currency and to meet the needs of the foreign exchange market.

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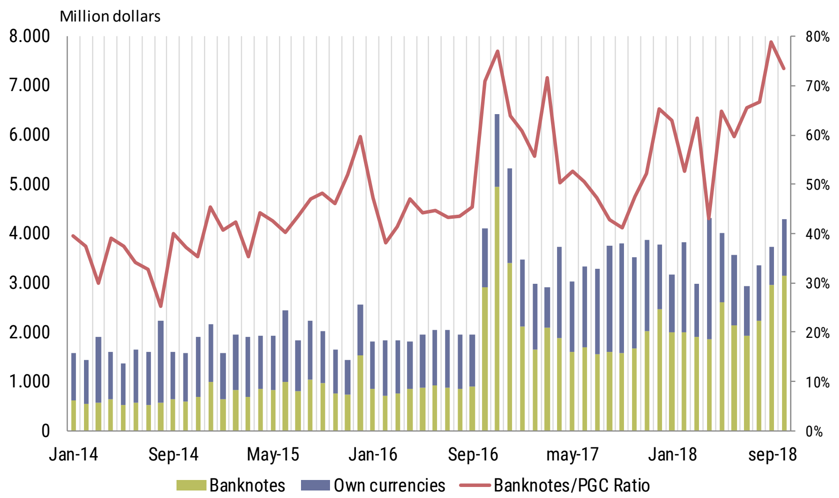
[12] In the foreign exchange market, transactions are recorded under the name of the institution. The net effect of these transactions has, as counterpart, non-financial private sector's residents, or nonresidents. For this reason, they are posted in the foreign exchange capital and financial account of the non-financial private sector.

[13] The Exchange Position (PGC) is defined in article 4.7 of Communication "A" 6244.

[14] It is worth mentioning that Communication "A" 6237 became effective on May 4, 2017, stating that the institutions authorized to make foreign currency transactions may freely determine the level and use of their liquid external assets in foreign currency (PGC). However, institutions are still subject to the limits established for the Net Global Position in Foreign Currency (PGNME).

Chart III.18. Exchange Balance
Institutions' Exchange Position (PGC)



In addition, the ensemble of institutions closed October with a forward long position of US$ 494 million, virtually keeping unchanged the level by late September[15], and exhibited reductions of an equivalent size in the net long position in regulated markets (US$ 660 million) and in the net short position in "Forwards" (see Charts III.19 and III.20).

Foreign institutions made net sales for US$ 160 million while domestic institutions made net purchases for US$ 162 million.

Chart III.19 Exchange Balance
Institutions' Forward Position

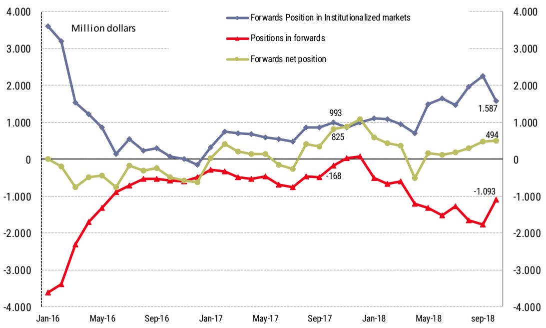
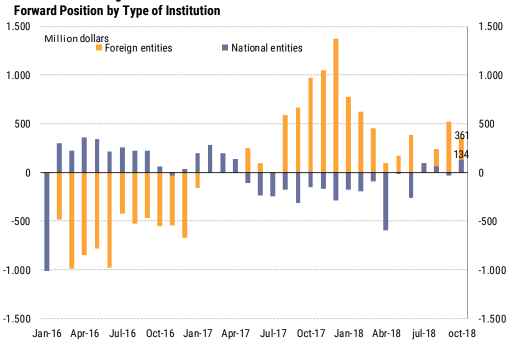


Chart III.20 Exchange Balance
Forward Position by Type of Institution



The volume traded in forward markets[16] amounted to US$ 20.43 billion in October (equivalent to US$ 929 million per day), up 12% against September and up 21% in year-on-year terms (see Chart III.21). As usual, the volume traded at the Rosario Futures Exchange (ROFEX) accounted for 92% of total forward transactions.

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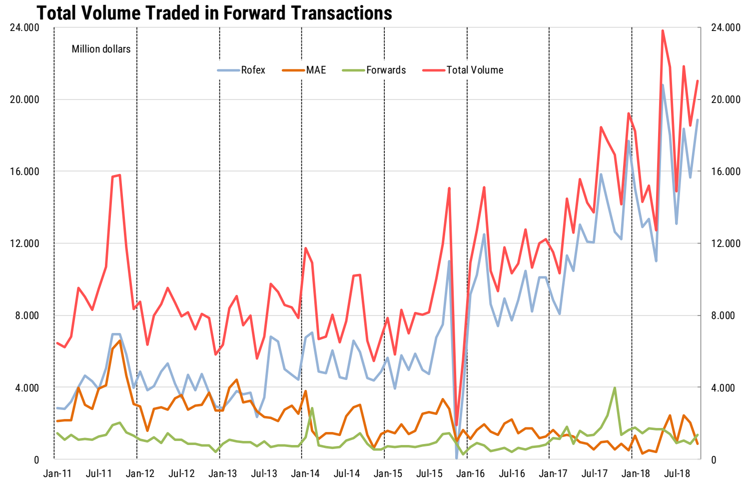
[15] This information comes from the system implemented by Communication "A" 4196, as supplemented.

[16] It includes the total volume traded in ROFEX and the transactions arranged by entities in the Electronic Over-the-Counter Market (MAE) and with Forwards. This information comes from the Forward Transactions Reporting Scheme (Communication "A" 4196, as amended) and publications in MAE's and ROFEX's Web pages.

Chart III.21 Forward Transactions
Total Volume Traded in Forward Transactions

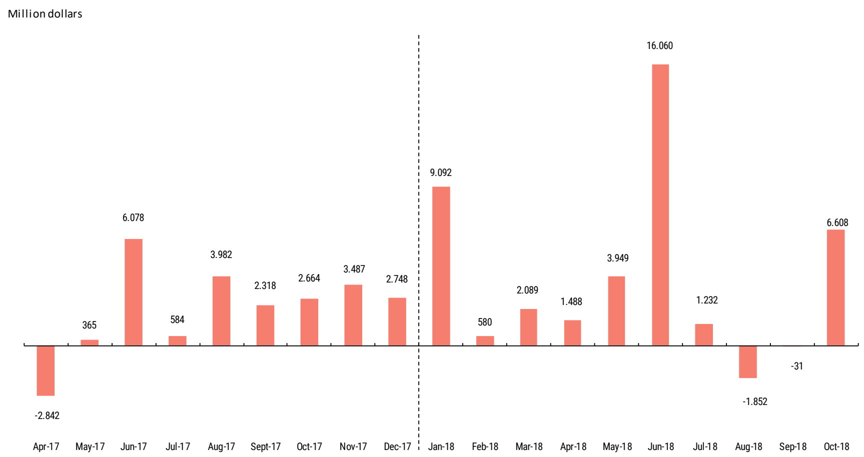


III. b.3. Foreign Exchange Capital and Financial Account of the Public Sector and the BCRA

The foreign exchange capital and financial account of the Public Sector and the BCRA recorded a surplus of US$ 6.61 billion in October (see Chart III.22), mainly accounted for by the disbursement of the second tranche of the Stand-By Agreement with the IMF for US$ 5.67 billion and by inflows in foreign currency of the National Treasury for the net issue of LETES for around US$1.1 billion. In turn, these movements were partially offset by net payments to international organizations for US$ 122 million.

Additionally, subnational governments made payments of debt securities for US$ 137 million with funds deposited domestically in foreign currency.

Chart III.22 Exchange Balance
Foreign Exchange Capital and Financial Account of the "Public Sector and the BCRA"



IV. BCRA's International Reserves

In October, as a consequence of the above-mentioned transactions, the BCRA's international reserves went up US$ 4.95 billion, closing the month with a stock of US$ 53.95 billion.

Chart IV.1 BCRA's International Reserves