

TRADE

13 September 2019

Global and domestic demand weakens further

India's trade deficit in Aug'19 remained stable at US\$ 13.5bn versus US\$ 13.4bn in Jul'19. Exports fell by (-) 6.1% led by textiles and engineering goods, a sign of global weakness. Imports too fell. While gold imports declined by (-) 62.5% due to higher prices, non-oil-non-gold imports fell by (-) 9.3% as domestic demand remains muted. Oil imports were lower as well. Given the macro backdrop, we expect trade deficit to be lower in FY20 and this should support INR despite FPI outflows. Yuan depreciation remains a risk.

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Exports decline sharply: India's exports fell by (-) 6.1% in Aug'19 compared with a 2.2% increase seen in Jul'19. While a part of decline can be attributed to higher base (+19.1% in Aug'18), continued weakness in global demand also remains a drag. The drop was led by textiles (-11.6% vs 1.3% in Jul'19), engineering goods (-9.4% vs -1.7%) and organic chemicals (-9.2% vs 13.4%). Decline in average oil prices in Aug'19 (-19.4% YoY) has led to (-) 10.7% decline in oil exports vs (-) 5% in Jul'19. Region wise, exports to Asia-Pacific (ex-China) and Europe have continue to remain weak on FYTD basis. We expect the trend to continue as global growth remains weak.

Imports decline further: Imports fell by (-) 13.4% in Aug'19, a 36-month low and a third consecutive YoY decline, compared with (-) 10.4% in Jul'19. The decline was led by (-) 62.5% plunge in gold imports from (-) 42.2% in Jul'19. Oil imports too fell by (-) 8.9% versus (-) 22.1% in Jul'19 due to softening of global oil prices. The contraction in non-oil-non-gold imports continued at (-) 9.3% in Aug'19 versus (-) 2.2% in Jul'19 as domestic demand remains muted. Within this, imports of pearls and precious metals (-20.5%) and capital goods imports (-20.1%) contracted the most. Only iron and steel imports increased.

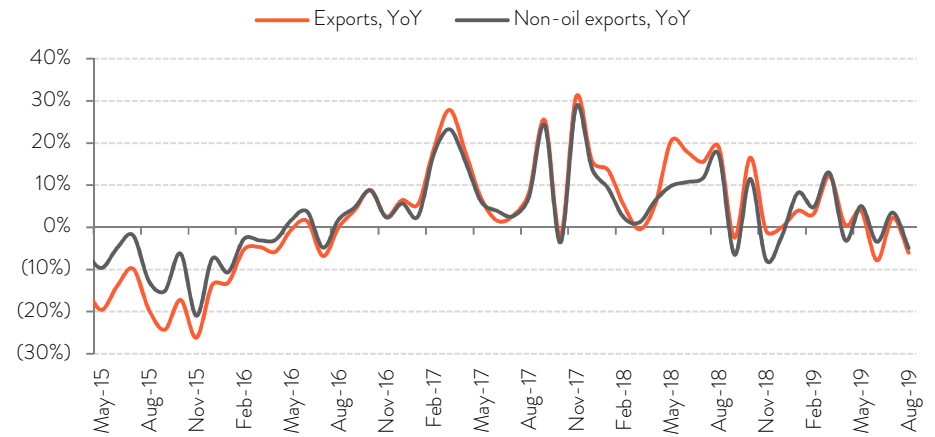
Trade deficit contained at US\$ 13.5bn: India's trade deficit remained stable at US\$ 13.5bn versus US\$ 13.4bn in Jul'19. In FYTD20, trade deficit has fallen to US\$ 72.9bn compared with US\$ 83.3bn in FYTD19 as imports have fallen at a faster rate than exports. The continued weakness in domestic demand as well as lower oil prices will help contain trade deficit at US\$ 175bn in FY20 versus US\$ 180.3bn in FY19, with a downward bias. This should help ease the pressure on INR even as FII outflows continue. However, further depreciation of Yuan remains a key risk to our INR view.

KEY HIGHLIGHTS

- Export growth fell to (-) 6.1% in Aug'19 from 2.2% in Jul'19.
- Imports contracted further by (-) 13.4% versus (-) 10.4% in Jul'19.
- Trade deficit remained stable at US\$ 13.5bn versus US\$ 13.4bn in Jul'19.

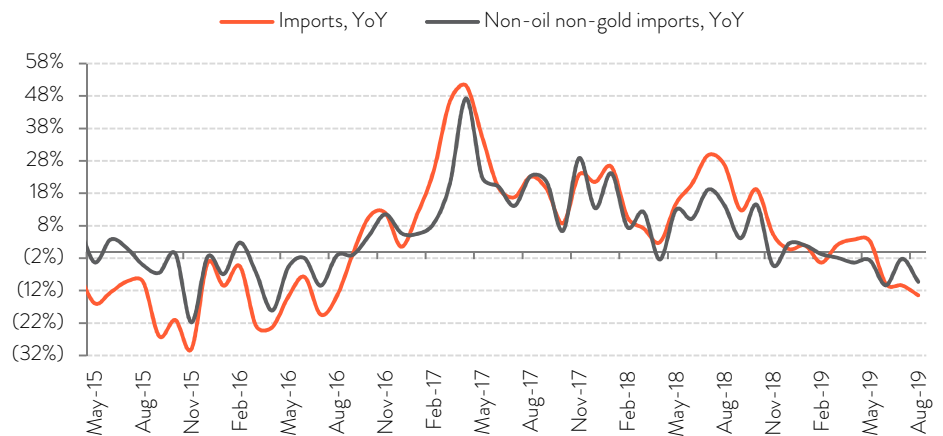


FIG 1 – EXPORT GROWTH DECLINES SHARPLY IN AUG'19



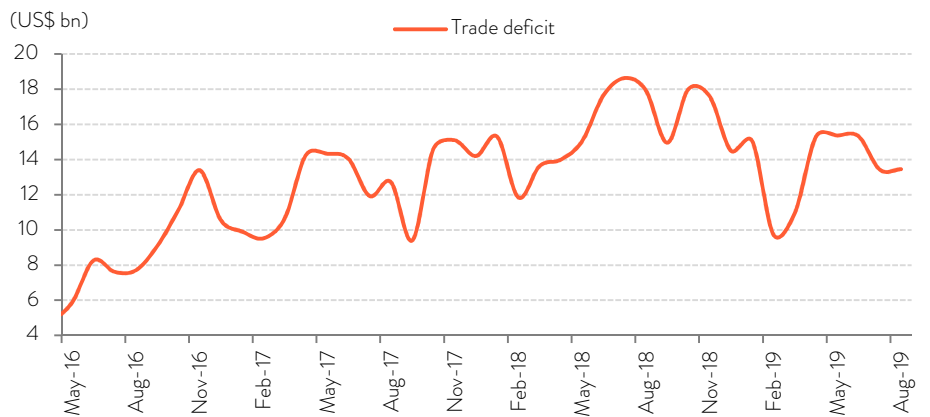
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORT GROWTH ALSO REMAINS WEAK



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT STEADIES IN AUG'19



Source: CEIC, Bank of Baroda Research

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