

TRADE

14 August 2019

Gold and oil imports decline

India's trade deficit declined to US\$ 13.4bn from US\$ 15.3bn in Jun'19 on the back of higher exports and lower imports. The decline in imports was led by gold at (-) 42% followed by oil at (-) 22%. Non-oil-non-gold imports too fell. On the other hand, exports showed a marginal uptick led by pharma and chemicals. Lower oil prices and domestic slowdown has resulted in a decline in trade deficit this year. Given the muted global and domestic backdrop, this implies lower trade deficit in FY20 and thus a positive outlook for INR.

Sameer Narang

Jahnavi | Sonal Badhan

chief.economist@bankofbaroda.com

Exports see marginal uptick: India's exports rose by 2.3% in Jul'19 vs (-) 9.7% in Jun'19. The revival was led by pharma products (21.7% vs 16.2% in Jun'19), organic chemicals (13.4% vs -8.2%) and textiles (1.3% vs -12.3%). Owing to decline in international prices, oil exports declined for the third consecutive month in Jul'19 (-5%). On a FYTD basis export growth is still weak at (-) 0.8%, compared with the same period last year at 15.4%. Region wise, the slowdown in exports is broad-based as global growth decelerates. Exports to Asia-Pacific (ex-China) and Europe have declined the most. Global slowdown implies export growth is likely to remain muted in the near-term.

KEY HIGHLIGHTS

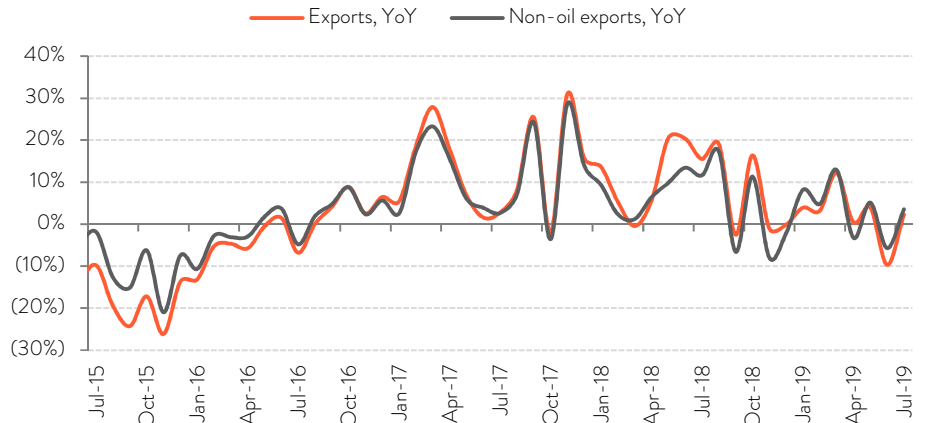
- Exports rise by 2.3% in Jul'19 compared with (-) 9.7% in Jun'19.
- Imports dip further by (-) 10.4% in Jul'19 compared with (-) 9.1% in Jun'19.
- Trade deficit declines to US\$ 13.4bn in Jul'19 versus US\$ 15.3bn in Jun'19.

Imports fall: Imports continue to decline in Jul'19 by (-) 10.4% from (-) 9.1% in Jun'19. Gold imports plunged by (-) 42.2% in Jul'19 vs an increase of 13% in Jun'19. Led by lower oil prices, oil imports fell by (-) 22.1% in Jul'19 compared with (-) 13.3% in Jun'19. Non-oil-non-gold imports continued to contract albeit at a slower pace of (-) 2.2% in Jul'19 vs (-) 9% in Jun'19. This was led by lower imports of pearls and precious metals which contracted by (-) 31% in Jul'19. In addition, ores and minerals (-37.1%), non-ferrous metals (-8.8%) and capital goods (-4.4%) too added to the decline.

Lower trade deficit, positive for INR: India's trade deficit narrows to US\$ 13.4bn in Jul'19 from US\$ 15.3bn in Jun'19 on the back of broad-based decline in imports. Trade deficit has fallen to US\$ 59.4bn in FYTD20 compared with US\$ 64.2bn last year. Going ahead, subdued consumption demand coupled with lower oil prices is likely to ensure a lower trade deficit in FY20 compared with FY19. While INR has depreciated by (-) 2.3% in Aug'19 on the back of FPI outflows of US\$ 1.3bn, lower oil prices bode well for INR. However, higher oil prices and sharper global growth slowdown remain a key risk to our view.

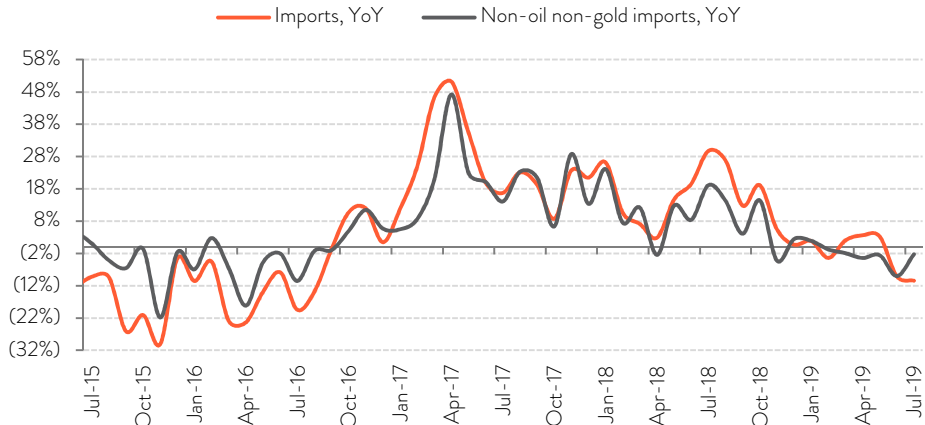


FIG 1 – EXPORT GROWTH PICKS UP MARGINALLY IN JUL'19



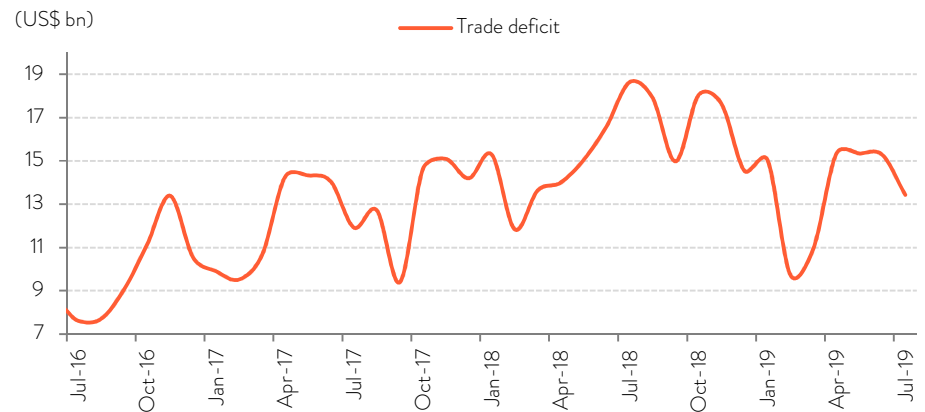
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS DIP FURTHER



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT DECLINES



Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com