TRADE

14 February 2020

Trade deficit expands as oil imports increase

India's trade deficit expanded to US$ 15.2bn in Jan'20 from US$ 11.3bn as exports fell at a faster pace than imports. Oil imports rose by 15.3% due to higher oil prices in Jan'20 which have fallen in Feb'20. Some improvement in domestic demand is also seen with non-oil-non-gold imports falling at a slower pace than in the last 6-months. Higher rural demand implies some improvement in the near-term. Exports may remain subdued due to impact of COVID-19. However, lower oil prices and foreign inflows should support INR.

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Exports growth remains elusive: Export growth in Jan'20 fell to 4-month low of (-) 1.7% versus (-) 1.6% in Dec'19 led by sharp fall in exports of gems & jewellery (-11.6% versus -8.2% in Dec'19), agriculture items (-11.4% versus -3.4%) and engineering goods (-4% versus -1.2%). Owing to higher oil prices (+5.7% YoY in Jan'20), oil exports rose by 2.9% from (-) 4.2% in Dec'19. In FYTD20, exports have contracted by (-) 2% versus +8.9% in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to decline. Post COVID-19, we expect global demand to remain subdued at least till H1CY20.

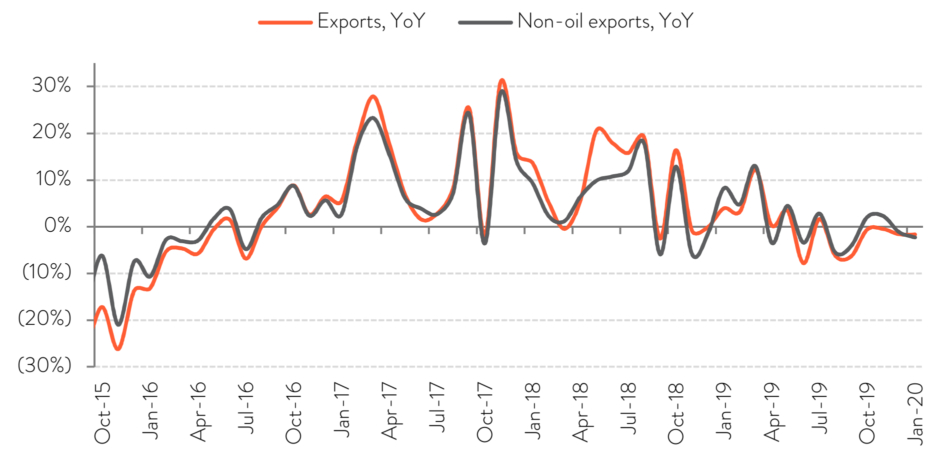
Oil imports rise: Imports contracted at a slower pace in Jan'20 at (-) 0.8% compared with (-) 8.8% in Dec'19 as oil imports rose (15.3% in Jan'20 compared with -0.8% in Dec'19). However, gold imports plunged to (-) 31.5% versus (-) 3.9% in Dec'19. Notably, gold prices rose by 20.6% YoY in Jan'20. Contraction in non-oil-non-gold imports eased to (-) 4.7% versus (-) 12.2% in Dec'19 as imports of capital goods picked up to a 13-month high (6.6% in Jan'20 versus -16.5% in Dec'19). Imports of agricultural products (+12.8%) and vegetable oils (+13%) also showed an improvement. Some improvement in rural demand may support non-oil imports in the near-term.

Trade deficit expands to a 7-month high: Led by a pickup in imports, India's trade deficit rose to US$ 15.2bn from US$ 11.3bn in Dec'19. Oil imports rose by US$ 2.3bn due to higher oil prices (+5.7% YoY). Some traction was also visible in non-oil-non-gold imports and they may inch up further as rural demand picks up. On the other hand, exports may not pick up as global outlook remains uncertain with the onset of the COVID-19 outbreak. However, lower oil prices (currently at US$ 56/bbl) will keep the import bill in check. As a result, trade deficit is unlikely to inch up materially in FY21. FII and FDI inflows are also on the higher side which will support INR.

KEY HIGHLIGHTS

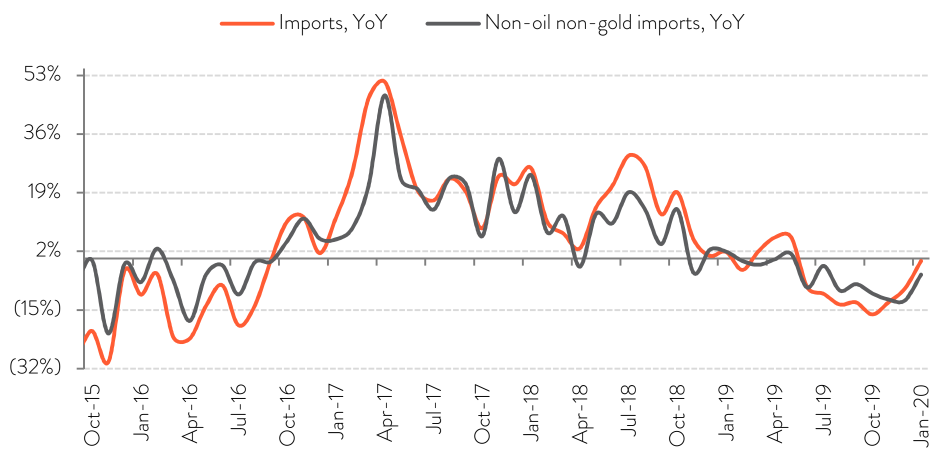
- Exports fall by (-) 1.7% in Jan'20 versus (-) 1.6% in Dec'19.
- Imports decline at a slower pace at (-) 0.8% in Jan'20 versus (-) 8.8% in Dec'19.
- Trade deficit expands to US$ 15.2bn in Jan'20 from US$ 11.3bn in Dec'19. .

FIG 1 – EXPORT GROWTH SLIPS FURTHER



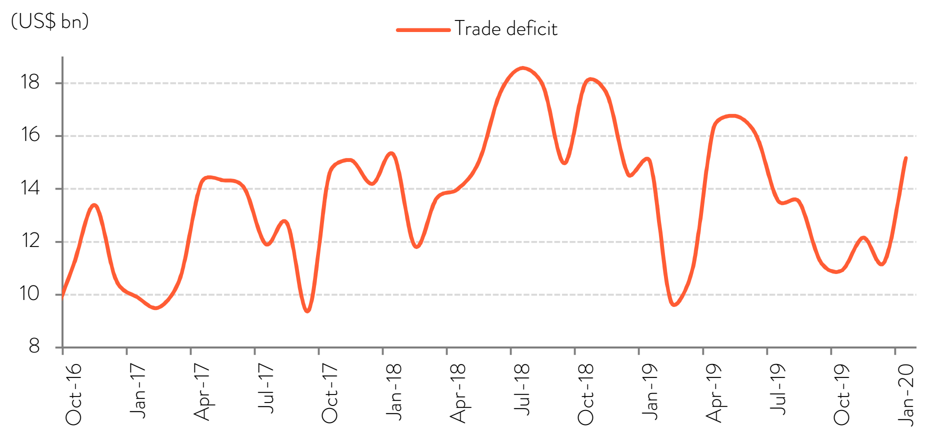
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS CONTRACT AT A SLOWER PACE



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT EXPANDS TO A 4-MONTH HIGH



Source: CEIC, Bank of Baroda Research

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