

## TRADE

15 November 2019

**Imports see a sharp dip, exports steady**

India's trade deficit in Oct'19 remained steady at US\$ 11.1bn versus US\$ 10.9bn in Sep'19. Exports fell by (-) 1.1%. Pharma, gems & jewellery and engineering goods showed maximum positive traction. Led by a decline in both oil and non-oil-non-gold imports, imports fell by (-) 16.3%. Lower oil prices and muted domestic consumption explain this. Hence, trade deficit will be lower at US\$ 175bn versus US\$ 180bn in FY19. While INR has depreciated by (-) 1.2% MTD, a lower trade deficit and buoyant inflows should provide some support.

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**KEY HIGHLIGHTS**

- Export growth at (-) 1.1% versus (-) 6.6% in Sep'19.
- Imports contract further by (-) 16.3% compared with (-) 13.8% in Sep'19.
- Trade deficit steady at US\$ 11bn versus US\$ 10.9bn in Sep'19.

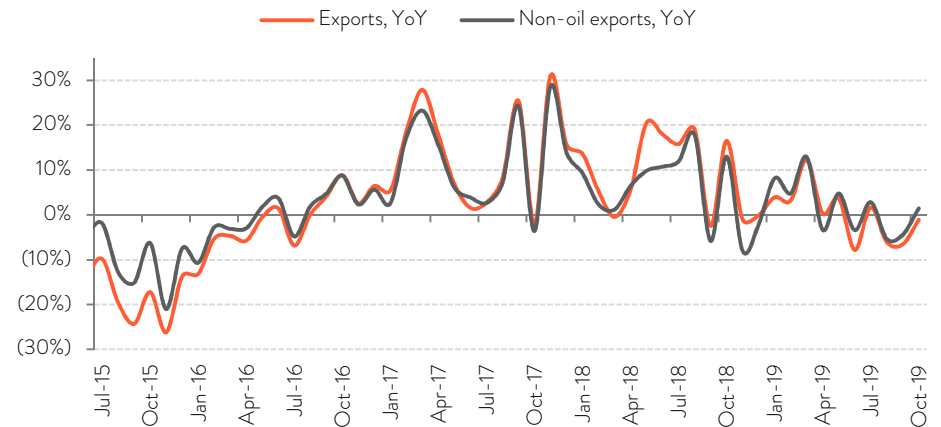
**Exports still decelerating:** Contraction in India's export growth eased to (-) 1.1% in Oct'19 from (-) 6.6% in Sep'19. The improvement was led by 12.6% jump in pharma products (8.7% in Sep'19) followed by gems & jewellery (+6% vs -5.6% in Sep'19) and engineering goods (1.2% vs -6.2% in Sep'19). Oil exports fell, albeit at a lower pace of (-) 14.6% compared with (-) 18.6% decline in Sep'19. In FYTD20, export growth has dipped by (-) 2.3% vs 13.3% increase seen in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to contract. Given the global backdrop of trade war and economic slowdown, exports are unlikely to pick-up.

**Imports contract further:** Following a (-) 13.8% decline in Sep'19, imports fell further in Oct'19 by (-) 16.3%, a 39-month low. Oil imports led the decline at (-) 31.8% vs (-) 18.3% in Sep'19 as oil prices declined by (-) 26% on a YoY basis. With weak domestic demand, non-oil-non-gold imports contracted by (-) 10% in Oct'19 vs (-) 8.9% in Sep'19. Within this, import of ores (-46.7%), coal (-28.7%) and precious metals (-17.6%) contracted the most. Contraction in capital goods continued for the 5th straight month, albeit at a slower pace of (-) 6.1% vs (-) 9.4% in Sep'19. Despite higher gold price, gold imports rose by 4.7% in Oct'19 vs (-) 50.8% in Sep'19 supported by festive buying.

**Trade deficit set to narrow in FY20:** India's trade deficit remained broadly stable at US\$ 11bn in Oct'19 vs US\$ 10.9bn in Sep'19. While exports have fallen by (-) 2.3% in FYTD20, imports have fallen at a much sharper pace of (-) 7.2% due to lower oil prices and weak domestic consumption. This has helped to curtail the trade deficit to US\$ 98bn vs US\$ 117bn last year. As a result, we expect CAD to narrow to 1.5% of GDP in FY20. While INR has depreciated recently, lower trade deficit as well as FII inflows (US\$ 9.9bn in FYTD20) will ensure that it remains stable in range of 70-72/\$ in FY20.

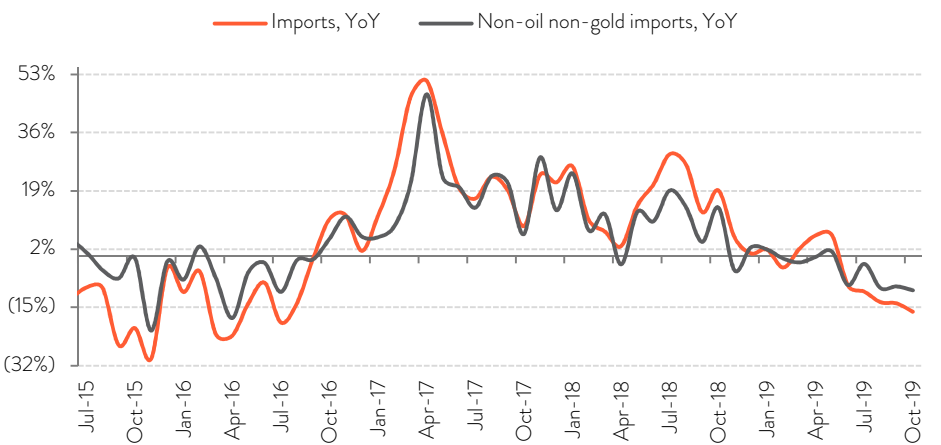


**FIG 1 – EXPORTS DECLINE BY (-) 1.1% IN OCT'19**



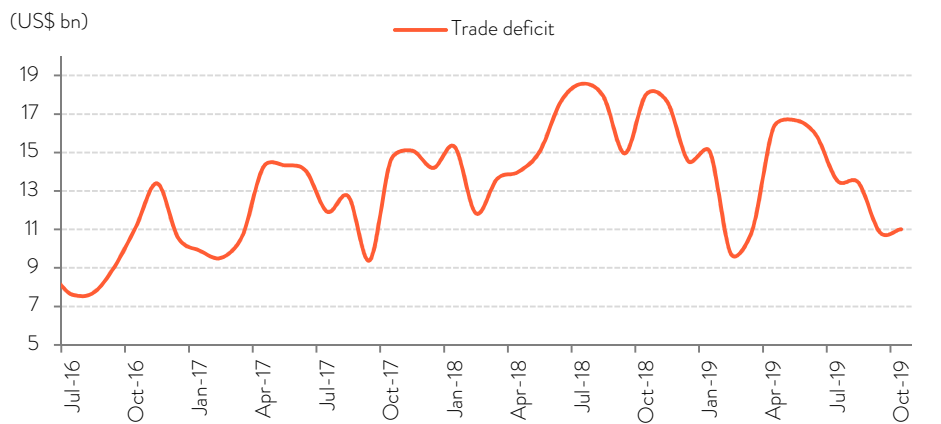
Source: CEIC, Bank of Baroda Research

**FIG 2 – IMPORTS CONTINUE TO CONTRACT**



Source: CEIC, Bank of Baroda Research

**FIG 3 – TRADE DEFICIT STABLE**



Source: CEIC, Bank of Baroda Research

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