TRADE

15 October 2019

Trade deficit narrows as imports shrink

India's trade deficit in Sep'19 reduced to US$ 10.9bn versus US$ 13.5bn in Aug'19. Exports fell again, by (-) 6.6% led by oil and gems & jewellery. Imports too contracted further. Despite onset of festive season, gold imports fell by (-) 50.8% due to higher prices. Non-oil-non-gold imports fell by (-) 8.9% on the back of current domestic slowdown. Given muted global and domestic growth backdrop, we expect trade deficit to ease in FY20 and thus support INR. Higher oil prices and Yuan depreciation remain key risks to our INR view.

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KEY HIGHLIGHTS

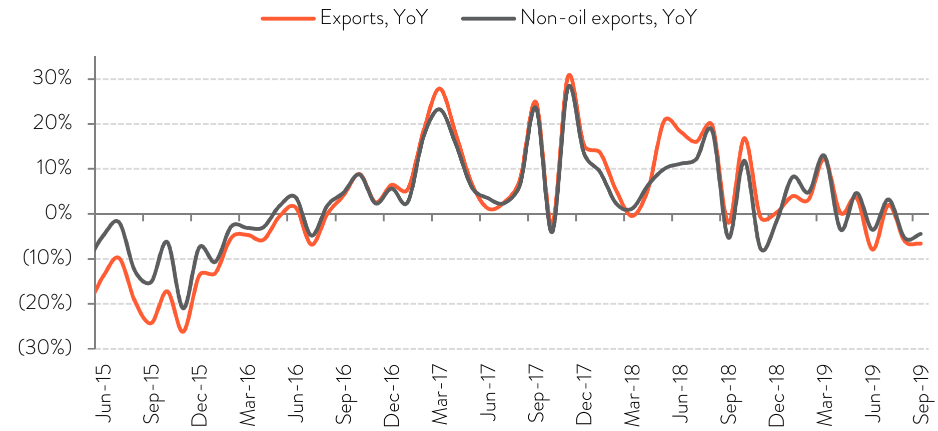
- Export growth fell to (-) 6.6% versus (-) 6% in Aug'19.
- Imports contracted further by (-) 13.9% in Sep'19 compared with (-) 13.4% in Aug'19.
- Trade deficit shrank to US$ 10.9bn versus US$ 13.5bn in Aug'19.

Exports continue to decline: India's exports fell by (-) 6.6% in Sep'19 compared with (-) 6% in Aug'19. This was led by (-) 18.6% decline in oil exports (-10.7% in Aug'19) and (-) 5.6% dip in gems & jewellery (-3.5% in Aug'19). Barring pharma products (+8.7%), all other non-oil exports declined, albeit less sharply than Aug'19. Overall, in Q2FY20 exports fell by (-) 3.7% versus 10.3% in Q2FY19 and (-) 1.3% in Q1FY20, thus imparting a negative demand impulse to the economy. In FYTD20, export growth has dipped by (-) 2.5% vs 12.5% in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to fall. We expect the trend to continue as global growth remains weak.

Imports fall further: Import growth declined for the 4th month to (-) 13.9% from (-) 13.4% in Aug'19, a 38-month low. This was led by a (-) 18.3% decline in oil imports versus (-) 8.9% dip in Aug'19 due to lower international oil prices. Gold imports continue to decline at (-) 50.8% compared with (-) 62.5% in Aug'19. Non-oil-non-gold imports contracted for the 8th consecutive month, albeit at a slower pace of (-) 8.9% versus (-) 9.3% in Aug'19. Within this, except chemicals (+4.4%) all other items noted a decline with imports of ores and minerals (-26%) and electronics (-24.2%) declining the most. Capital goods declined by (-) 9.4% in Sep'19 versus (-) 20.1% in Aug'19.

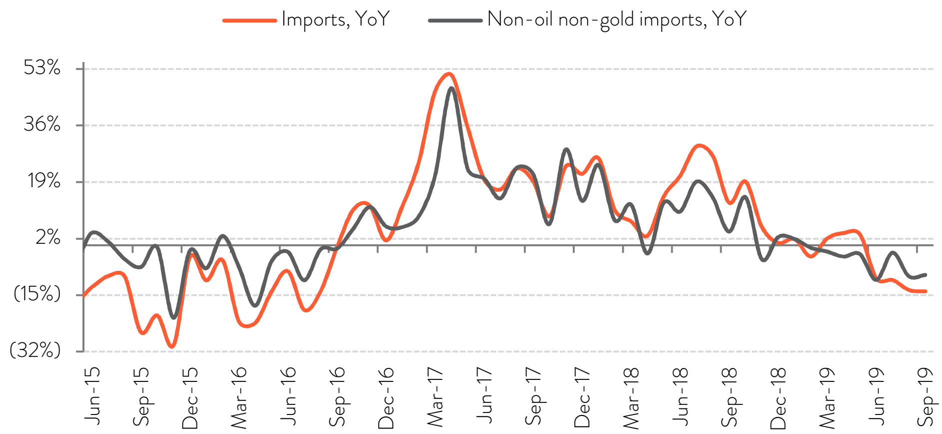
Trade deficit narrows to 7-month low: India's trade deficit narrowed to US$10.9bn from US$ 13.5bn in Aug'19 led by lower imports. In FYTD20 now trade deficit is lower at US$ 84bn compared with US$ 98.2bn in FYTD19 led by oil (lower by US$ 5.6bn) as well as non-oil-non-gold imports (lower by US$ 10.8bn). With oil prices remaining low and sluggish domestic consumption, we expect CAD to narrow to 1.5% of GDP in FY20 compared with 2% of GDP in FY19. This will be help anchor INR at current levels. However, depreciation of Yuan and spike in oil prices remain key risks.

FIG 1 – EXPORT GROWTH DECLINES FURTHER IN SEP'19



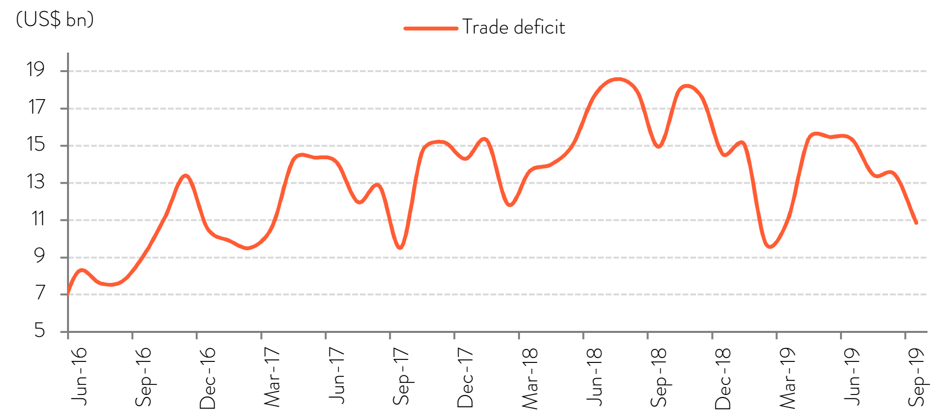
Source: CEIC, Bank of Baroda Research

FIG 2 – SIMILAR TREND VISIBLE IN IMPORTS



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT NARROWS TO US$ 10.9BN



Source: CEIC, Bank of Baroda Research

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