

## TRADE

03 October 2020

**Exports gain traction**

India's trade deficit fell to US\$ 2.9bn in Sep'20 from US\$ 6.8bn in Aug'20 as exports rose by 5.3%, first time in 6-months. Pharma exports increased the most at 24.4%. Imports too are recovering led by non-oil-non-gold imports which fell by 13.3% in Sep'20 compared with a fall of 29.6% in Aug'20. Imports will pick-up gradually, in sync with domestic demand because of which current account surplus is estimated at US\$ 39bn (1.5% of GDP) in FY21. We continue to remain positive on INR.

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**Export growth picks up:** As per preliminary data, India's exports rose for the first time in 6-months by 5.3% in Sep'20 compared with a 12.7% decline in Aug'20. Drugs and pharmaceutical exports rose by 24.4% (17.3% in Aug'20). Exports of engineering goods also picked up to 3.7% (decline of 7.7% in Aug'20). In Q2, exports are down by 5.7% compared with 36.2% decline seen in Q1FY21. We expect exports to show a steady improvement led by a recovery in global demand.

**Imports also improve:** Imports too showed a steady improvement and contracted by only 19.6% in Sep'20 compared with a decline of 26% in Aug'20. The improvement was led by non-oil-non-gold imports which contracted at a slower pace of 13.3% in Sep'20 versus a dip of 29.6% in Aug'20. Within this, imports of electronic items picked up to 3.5% (decline of 11.7% in Aug'20). Contraction in oil imports also eased to 35.9% versus 41.6% decline in Aug'20. Gold imports rose at a slower pace of 110.9% versus 171.3% in Aug'20. Gold prices were lower by 2.4% on a MoM basis.

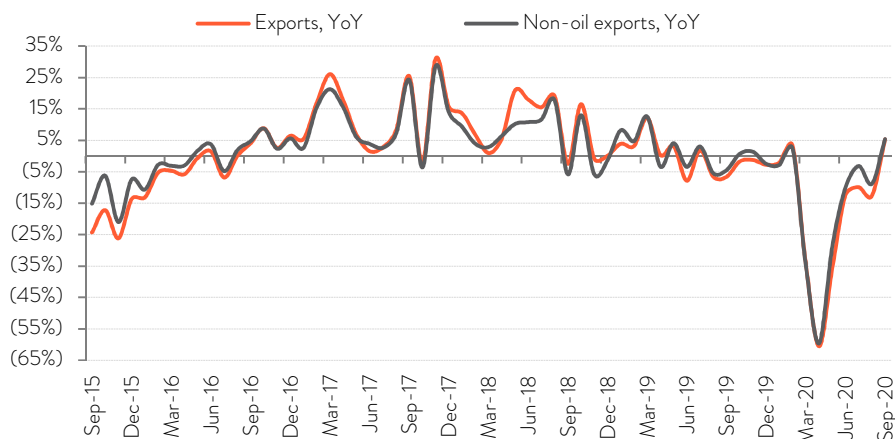
**Favorable outlook:** India's trade deficit narrowed to US\$ 2.9bn in Sep'20 from US\$ 6.8bn in Aug'20. While the trade deficit in Q2FY21 at US\$ 14.5bn is higher than in Q1 (US\$ 9bn), it is considerably lower compared with Q2FY20 at US\$ 39.7bn. Overall pickup in economic activity is visible with high frequency indicators such as manufacturing PMI (highest since Jan'12 at 56.8 in Sep'20 from 52 in Aug'20), improvement in electricity demand (2.5% in Sep'20 from a decline of 4.2% in Aug'20), e-way bills (contraction of 3.5% in Aug'20 against 7.3% in Jul'20) and GST collections of Rs 955bn (3.9% higher over last year). As a result, domestic demand is also expected to improve because of which trade deficit is estimated at US\$ 75bn in FY21 as against US\$ 24bn in H1FY21.

**KEY HIGHLIGHTS**

- Exports rose by 5.3% in Sep'20 versus a decline of 12.7% in Aug'20.
- Imports contract by 19.6% versus 26% decline in Aug'20.
- Trade deficit narrows to US\$ 2.9bn from US\$ 6.8bn in Aug'20.

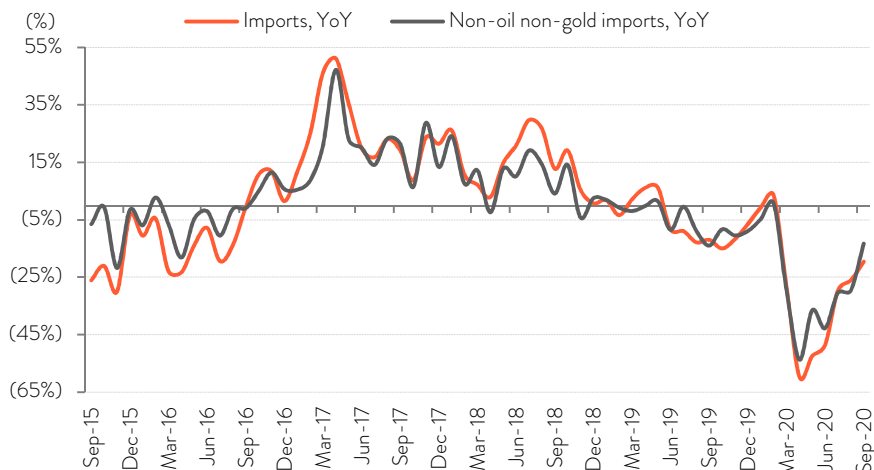


**FIG 1 – EXPORT GROWTH RISES TO AN 18-MONTH HIGH**



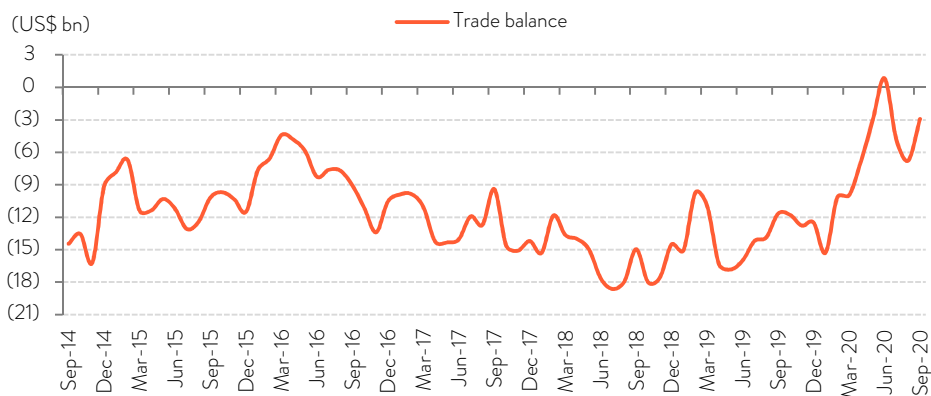
Source: CEIC, Bank of Baroda Research

**FIG 2 – IMPORTS CONTINUE TO IMPROVE**



Source: CEIC, Bank of Baroda Research

**FIG 3 – TRADE DEFICIT NARROWS IN SEP'20**



Source: CEIC, Bank of Baroda Research

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