FIRST LIGHT

01 July 2021

RESEARCH

BOB Economics Research | Balance of Payments

Rising oil prices=wider current account deficit

Metals & Mining

Expert call with Rusal on global aluminium outlook

SUMMARY

India Economics: Balance of Payments

India's Current account deficit increased to 1% of GDP in Q4FY21 led by rising trade deficit. Foreign investment inflows too moderated leading to sharp reduction in BoP surplus to US$ 3.4bn in Q4 from US$ 32.5bn in Q3. However, in FY21, India managed to report a current account surplus of US$ 23.9bn (0.9% of GDP) as imports shrank. Going forward, we expect a CAD of 1.5% of GDP (oil price at US$ 75/bbl). This implies a modest BoP surplus. INR is likely to trade in a narrow band of 73-75/$ in near-term.

Click here **for the full report.**

Metals & Mining

- We hosted a call with the IR team of Rusal, the world's largest aluminium producer outside China with a global footprint across 20 countries
- Aluminium price to find near-term support from export tax in Russia, higher regional premiums and deficit market
- Structural long-term support to come from a cap on capacity in China, 'green' premium and carbon mitigation costs

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.47	(1bps)	(12bps)	81bps
India 10Y yield (%)	6.04	(2bps)	3bps	15bps
USD/INR	74.23	(0.1)	(2.5)	1.7
Brent Crude (US$/bbl)	74.76	0.1	7.4	81.7
Dow	34,292	0.0	(0.7)	32.8
Shanghai	3,573	(0.9)	(0.8)	19.7
Sensex	52,550	(0.4)	2.2	50.5
India FII (US$ mn)	**28-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	(5.5)	(517.2)	(3,097.8)	(1,070.5)
FII-E	(158.7)	1,205.4	7,791.5	465.2

Source: Bank of Baroda Economics Research

BOBCAPS Research
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BALANCE OF PAYMENTS

30 June 2021

Rising oil prices=wider current account deficit

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Current account deficit widens in Q4: India's current account deficit rose to US$ 8.2bn in Q4FY21 (1% of GDP) from US$ 2.2bn in Q3 (0.3% of GDP). This was led by an increase in trade deficit to US$ 41.7bn in Q4 from US$ 34.6bn in Q3. Imports rose at a faster pace (US$ 133bn in Q4 from US$ 112bn in Q3), led by higher oil and non-oil imports. Exports rose to US$ 91bn in Q4 from US$ 77bn in Q3. Net invisibles rose to US$ 33.6bn from US$ 32.4bn, led by stable services receipts (US$ 23.5bn). Transfers (remittances) fell to US$ 18.8bn in Q4 from US$ 19.3bn in Q3.

BoP surplus shrinks in Q4: BoP surplus shrank to US$ 3.4bn in Q4FY21 from US$ 32.5bn in Q3FY21 led by sharp reduction in FDI inflows to US$ 2.7bn in Q4 from US$ 17.4bn in Q3. FII inflows also moderated to US$ 7.3bn in Q4 from US$ 21.2bn in Q3. While ECB inflows increased to US$ 6.1bn, external assistance improved to US$ 4bn and banking capital outflows decelerated to US$ 4.4bn in Q4 respectively, drop in foreign investments was far larger at US$ 28.6bn in Q4 (over Q3).

Current account surplus at 0.9% of GDP in FY21: India's current account recorded a surplus of US$ 23.9bn (0.9% of GDP) in FY21 versus a deficit of US$ 24.7bn (0.9% of GDP) in FY20. This was led by a lower trade deficit of US$ 102bn at 3.8% of GDP (16-year low) from 5.5% of GDP in FY20. With India's GDP contracting by 7.3% in FY21, imports fell sharply. Exports did better as global economy fell by only 3.3% in 2020. Services receipts remained resilient. Capital account inflows narrowed to US$ 63.8bn in FY21 from US$ 83.2bn in FY20 on account of lower ECB inflows (-US$ 0.1bn from US$ 23bn) and banking capital outflows (US$ 21.1bn from US$ 5.3bn). Foreign investment inflows were higher. As a result, BoP surplus rose to its highest level since FY08 at US$ 87.3bn in FY21 versus US$ 59.6bn in FY20.

INR in 73-75/ $ range: For FY22, we expect current account deficit to range between US$ 29.7bn (1% of GDP) or US$ 46.3bn (1.5% of GDP) depending upon oil prices at US$ 65/bbl or US$ 75/bbl. Exports are likely to see a sharp improvement. So is the case with imports, as India's growth rebounds to 9.7% in FY22. BoP surplus in FY22 will be far lower at US$ 20.7bn (US$ 75/bbl). We expect INR to trade in a narrow band of 73-75/$. Rising oil prices remain a key risk.

Key highlights

- Current account deficit at 1% of GDP in Q4FY21 versus 0.3% of GDP in Q3FY21.
- In FY21, current account recorded a surplus of 0.9% of GDP from a deficit of 0.9% of GDP in FY20.
- Rising oil prices imply wider current account deficit in FY22.

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METALS & MINING

30 June 2021

Expert call with Rusal on global aluminium outlook

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- **Aluminium price to find near-term support from export tax in Russia, higher regional premiums and deficit market**
- **Structural long-term support to come from a cap on capacity in China, 'green' premium and carbon mitigation costs**

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We summarise takeaways from our call with Rusal's IR team and Head of Research.

Aluminium prices supported in near term: Supportive factors include the levy of a 15% export tax on Russian metal, stronger regional premiums, higher container freight rate and growing demand as well as increased costs of coal, anodes and carbon pitch due to the decarbonisation drive in China. However, higher prices may encourage an increase in Chinese exports to bridge the gap.

Global aluminium market likely to be in deficit in H2 2021 and 2022: With seasonally strong demand in H2, the global market will likely transition from a surplus in H1 to a deficit in H2 2021. Rusal estimates the 2021 global deficit at 0.4mt and expects an even higher gap in 2022. While China is continuing its strong demand growth, the ex-China market will likely reach pre-pandemic levels.

Global deficit to continue in medium term with stocks supporting the gap: Rusal forecasts a 4% aluminium demand CAGR over the next five years on the back of green demand from EVs, renewables, packaging and green buildings. Supply would grow slower than demand with ex-China production forecast to rise from 26-27mt to 28-29mt by 2023/24. Rusal also expects China to remain a net importer with its capacity capped at 45mt. This could help maintain a stable global deficit. However, global aluminium stocks of 6-7mt could bridge the deficit in market.

Long-term support from 'green' premium: Aluminium prices could see potential support from additional costs imposed through legislation and/or customer demand for greener, low-carbon products to make their own operations carbon-neutral. Legislative support could initially come from Europe, the US, Japan and S Korea.

Proposed demerger of high-carbon assets receives positive investor feedback: Rusal's proposed demerger gives investors the option to invest across two strategies – Rusal could offer a strategy to leverage low-carbon assets for maximising green premium while the demerged entity could offer a strategy to pursue improvement in ESG for high-carbon assets.

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Note: Recommendation structure changed with effect from 21 June 2021

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