

RESEARCH
BOB Economics Research | Trade

Non-oil-non-gold imports resilient over 2 years

SUMMARY
India Economics: Trade

India's trade deficit fell to US\$ 6.3bn from US\$ 15.2bn in Apr'21 led by decline in gold and oil imports and higher exports. Over a 2-year period, exports have risen by 8%. While imports have fallen by 17.5% (due to gold), non-oil-non-gold imports have fallen by only 3% over a 2-year horizon. Thus implying domestic economic activity has been far more resilient in the second wave than the first when imports had fallen by 55% (Apr-May'20). We expect trade deficit at US\$ 157bn in FY22 (US\$ 100.1bn in FY21).

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TOP PICKS
Large-cap ideas

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

Mid-cap ideas

Company	Rating	Target
Alkem Labs	Buy	3,620
Ajanta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.61	1bps	(2bps)	92bps
India 10Y yield (%)	6.02	0bps	(1bps)	26bps
USD/INR	72.90	(0.4)	1.6	3.3
Brent Crude (US\$/bbl)	70.25	1.3	4.5	77.5
Dow	34,575	0.1	2.1	34.3
Shanghai	3,625	0.3	5.2	24.1
Sensex	51,935	0	6.5	53.5
India FII (US\$ mn)	31 May	MTD	CYTD	FYTD
FII-D	(73.7)	(188.3)	(2,580.6)	(553.4)
FII-E	712.0	748.9	6,586.1	(740.3)

Source: Bank of Baroda Economics Research

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TRADE

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Exports holding ground: As per preliminary data, India's exports rose to US\$ 32.2bn in May'21 (67.4% YoY) from US\$ 30.6bn in Apr'21 (195.7%). Notably, exports have increased by 8% even over a 2-year period (Since May'19). Over the same time period, non-oil exports are up by 8.1% (at US\$ 26.9bn) and oil exports have risen by 7% (at US\$ 5.3bn). Within non-oil exports, engineering goods (16.1%), drugs and pharma (11%) and chemicals (6.3%) have risen the most over 2-year horizon. On the other hand, gems and jewellery has fallen 13.4%. With rebound in global economic activity, we expect export growth to remain resilient in the coming months as well.

Imports moderated: India's imports moderated to US\$ 38.5bn in May'21 from US\$ 45.7bn in Apr'21. This still implies an increase of 68.5% over May'20. However, over a 2-year horizon, imports have declined sharply by 17.5% (US\$ 46.7bn in May'19). Over the same horizon, oil imports have dipped by 24.9%. Gold imports too have moderated to US\$ 0.7bn in May'21 from US\$ 4.8bn in May'19. Non-oil-non-gold imports have eased only by 3% over a 2-year horizon. Within this, transport equipment has seen a sharp decline by 50.8% followed by leather (37.1%). However, imports of vegetable oil (75.1%) and precious stones (33.7%) have increased.

Trade deficit narrows: India's trade deficit narrowed to US\$ 6.3bn in May'21 from US\$ 15.1bn in Apr'21 led by lower gold and oil imports. On a MoM basis, non-oil-non-gold imports are at a similar level. We expect oil, gold and non-oil-non-gold imports to increase once the economic activity resumes. At the same time, exports are likely to fare well as global demand remains strong. As a result, we expect trade deficit to widen to US\$ 157bn in FY22 from US\$ 100.1bn in FY21. Rising Covid-19 cases in India and higher oil prices remain a key risk to our view.

KEY HIGHLIGHTS

- Exports rose to US\$ 32.2bn (67.4% YoY) in May'21 from US\$ 30.6bn (195.7%) in Apr'21.
- Imports moderated to US\$ 38.5 (68.5% YoY) in May'21 versus US\$ 45.7bn in Apr'21.
- Oil imports remain elevated at US\$ 9.45bn in May'21.
- Trade deficit narrowed to US\$ 6.3bn from US\$ 15.1bn in Apr'21.



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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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