

RESEARCH

BOB Economics Research | Trade

Sharp acceleration in imports

SUMMARY

India Economics: Trade

India's trade deficit expanded to US\$ 15.7bn in Dec'20 from US\$ 9.9bn in Nov'20 as imports bounced back by 7.6% (26-month high), led by gold imports. Non-oil-non-gold imports too improved to a 26-month high at 7.9% in Dec'20 led by electronics and edible oils. Exports fell by only 0.8%. Pharma and chemical exports held-up. Exports are likely to see gradual recovery as lockdowns are lifted in most parts of world. Imports will continue to inch up as domestic activity improves. Foreign inflows and weak US\$ will support INR.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.91	(1bps)	7bps	(96bps)
India 10Y yield (%)	5.90	0bps	(1bps)	(60bps)
USD/INR	73.0	0.3	1.3	(2.4)
Brent Crude (US\$/bbl)	51.80	0.9	7.5	(21.5)
Dow	30,606	0.6	2.3	7.2
Shanghai	3,473	1.7	1.9	13.9
Sensex	47,751	0	8.2	15.6
India FII (US\$ mn)	30 Dec	MTD	CYTD	FYTD
FII-D	(21.9)	635.4	(13,983.8)	(4,224.3)
FII-E	240.5	7,182.7	23,288.4	29,891.4

Source: Bank of Baroda Economics Research

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TRADE

02 January 2021

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Exports recovering: Preliminary data shows that contraction in export growth eased sharply to only 0.8% in Dec'20 compared with a drop of 8.7% in Nov'20. The improvement was led by uptick in pharma products (17.4% versus 11.1% in Nov'20), chemicals (10.7% versus drop of 8.1%) and electronic goods (16.4% versus 1%). Exports of gems and jewellery also rose. However, textile (15.1% drop) and oil (40.5% drop) exports fell the most, dragging the headline print down. Exports declined by 4.8% in Q3FY21 compared with 5.3% decline in Q2 and 15.5% dip in FYTD21.

Imports rise sharply: India's imports rose by 7.6% in Dec'20 (US\$ 42.6bn), highest pace in 26-months, after contracting by 13.5% in Nov'20. This was led by 81.8% jump in gold imports versus 2.6% in Nov'20. Oil imports contracted at a slower pace of 10.3% versus a decline of 43.4% in Nov'20 led by higher oil prices (14.2% MoM increase in Dec'20). Non-oil-non-gold imports rose at the fastest pace since Oct'18 at 7.9% compared with a decline of 1.7% in Nov'20. The increase in non-oil-non-gold imports was broad-based and coincides with a recovery domestic in economic activity. Electronics (20.9%) and vegetable oils (43.5%) saw the highest increase. On the other hand, imports of transport equipment declined by 32.1% suggesting continued weakness in capital imports.

Trade deficit expands: India's trade deficit rose to an 18-month high of US\$ 15.7bn in Dec'20 from US\$ 9.9bn in Nov'20. With a drop in Covid-19 cases domestically (0.78mn monthly increase in Dec'20 versus 1.2mn in Nov'20) and the consequent improvement in domestic economic activity, imports picked up. This trend is likely to continue even in Q4FY21. However, India's external position continues to remain comfortable as trade deficit in FYTD21 at US\$ 58.4bn is much lower than US\$ 125.9bn in FYTD20. Apart from this, buoyant foreign inflows as well as stable services and transfer receipts are also supportive of INR.

KEY HIGHLIGHTS

- Exports contract by 0.8% in Dec'20 compared with a decline of 8.7% in Nov'20.
- Imports increase by 7.6% in Dec'20 versus a decline of 13.5% in Nov'20.
- Trade deficit rises to US\$ 15.7bn in Dec'20 from US\$ 9.9bn in Nov'20.



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

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

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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