

TRADE

14 August 2020

Imports catching up, non-oil exports improve

India's trade balance slipped into deficit of US\$ 4.8bn in Jul'20 from a surplus of US\$ 0.8bn in Jun'20. Rise in imports was driven by higher gold imports. Oil and non-oil-non-gold imports also contracted at a slower pace. Electronic imports are showing some revival as demand stabilizes after unlocking of the economy. Non-oil exports continue to show improvement led by pharma, agri and engineering goods. A muted trade deficit and foreign inflows imply INR will continue to see an appreciating bias in the near-term.

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Steady improvement in exports: India's exports contracted by 10.2% in Jul'20 versus a decline of 12.4% in Jun'20. Most of the improvement was seen in exports of engineering goods (8.5% versus decline of 7.5% in Jun'20), drugs and pharma items (19.5% versus 9.9% in Jun'20) and agricultural products (10% versus 8.4% in Jun'20). However, significant contraction in exports of oil (51.5% versus 31.6% in Jun'20) and gems & jewelry (49.6% versus 50.1% in Jun'20), impacted the headline print. Chemical exports too slowed. On FYTD basis, exports are down by 30.1% compared with decline of 0.5% last year.

Imports pickup: Imports contracted by only 28.4% in Jul'20, after falling steeply by 47.6% in Jun'20 led by a 4.3% increase in gold imports (decline of 77.4% in Jun'20). Notably, gold prices increased by 30.4% YoY. Improvement was also seen in non-oil-non-gold imports which contracted by 29.2% in Jul'20 versus 41.4% drop in Jun'20. Imports of vegetable oils (27.4% versus 8.5%) and agricultural products (21.3% versus 1.2%) rose sharply. Moderation was visible in pace of contraction of electronics (4.3% versus 34.1%), pearls and precious stones (45.6% versus 70%) and capital goods imports (37.7% versus 42.2%). Oil imports however fell by 32% in Jul'20 (55.3% decline in Jun'20).

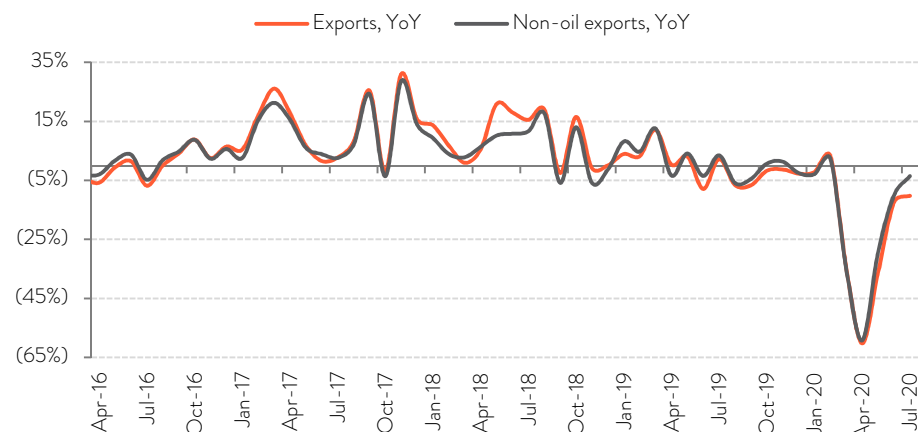
Trade deficit to remain muted: India's trade deficit increased to US\$ 4.8bn in Jul'20 versus a surplus of US\$ 0.8bn in Jun'20 as imports picked up faster than exports. Non-oil-non-gold imports are unlikely to see a significant pickup as consumer confidence remains weak. Thus, exports are likely to perform better as global economy recovers. In addition, range-bound oil prices imply trade deficit is likely to be far lower this year than last year. We expect trade deficit to shrink to 3-3.5% of GDP in FY21 versus 5.5% of GDP in FY20. Further, foreign inflows into India have resumed. The above backdrop suggests that INR is likely to see an appreciating bias in the near-term.

KEY HIGHLIGHTS

- Exports decline by 10.2% in Jul'20 versus 12.4% in Jun'20.
- Imports contract by 28.4% in Jul'20 compared with 47.6% in Jun'20.
- Trade deficit at US\$ 4.8bn versus a surplus of US\$ 0.8bn in Jun'20.

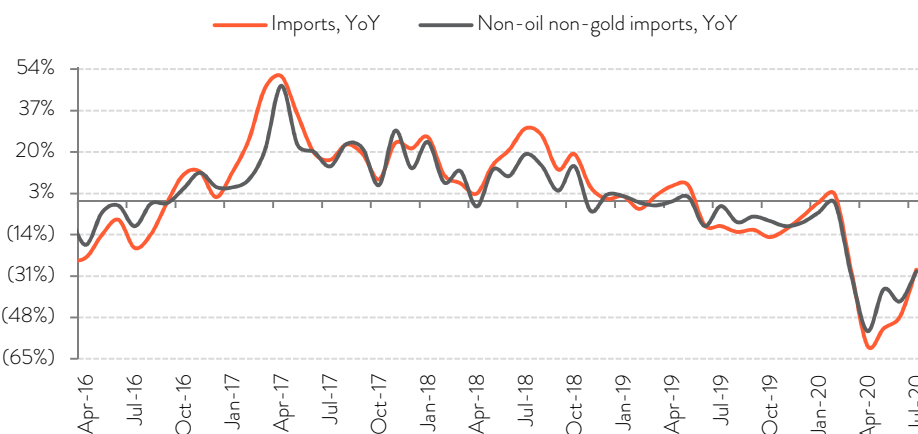


FIG 1 – NON-OIL EXPORTS RECOVER AT A FASTER PACE



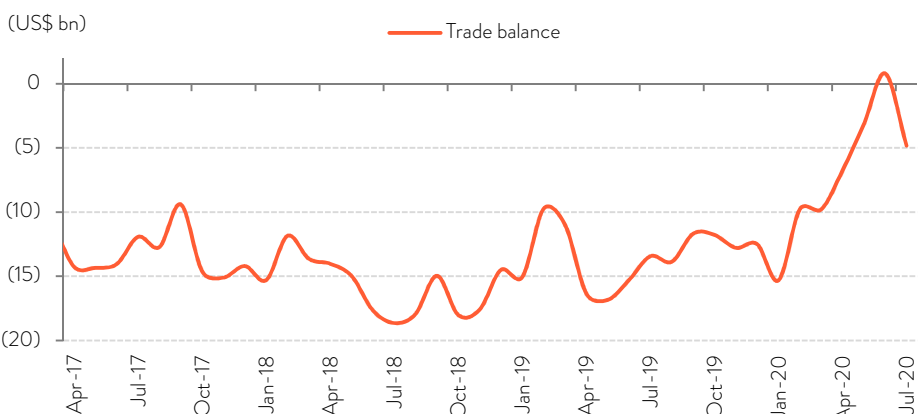
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS ALSO IMPORVE IN JUL'20



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE BALANCE MOVES TO DEFICIT IN JUL'20



Source: CEIC, Bank of Baroda Research

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