

TRADE

15 March 2019

Trade deficit narrows to a 17-month low

India's trade deficit narrowed sharply to US\$ 9.6bn in Feb'19 from US\$ 14.7bn in Jan'19 led by decline in imports. Both oil and non-oil-non-gold imports decelerated. The dip in non-oil-non-gold imports is symptomatic of a slowing domestic economy. Exports have also seen a moderation, but have maintained a positive growth trajectory. With CAD at US\$ 64.5bn and rising FII inflows, we believe INR is likely to benefit from the above backdrop. The slowing economy should also give RBI room to ease further in Apr'19.

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Exports continue to decelerate: Export growth eased marginally to 2.4% in Feb'19 vs 3.7% in Jan'19 led by (-) 7.7% decline in oil exports. Non-oil exports rose by 3.9% in Feb'19 vs 8% in Jan'19. This was led by gems & jewellery at (-) 2.1% vs +6.7% in Jan'19, chemicals at 4.1% vs 15.6% and textiles at 3.8% vs 7.1%. A similar deceleration is visible in FYTD19 with exports increasing at 9% vs 11% in FYTD18. The easing is more visible in H2FY19 with exports increasing at only 4.7% vs 12.1% in H2FY18. The decline in export growth is more pronounced in exports to Asia (ex-China), followed by Europe & Americas.

Imports decline sharply: India's imports fell by (-) 5.4%, a 30-month low, in Feb'19 led by lower imports of pearls and precious metals (-17.5% in Feb'19), gold (-10.8%), and oil (-8%). Even, non-oil-non-gold imports fell by (-) 3.7% in Feb'19 vs +0.9% in Jan'19. The decline was led by electronic goods at (-) 6.5%, capital goods at (-) 4.5% and agri products at (-) 15% in Feb'19. As is the case with exports, the decline in non-oil-non-gold imports is more visible in H2FY19 at 0.1% vs 9.7% in H1FY19 suggesting a slowdown in domestic economy.

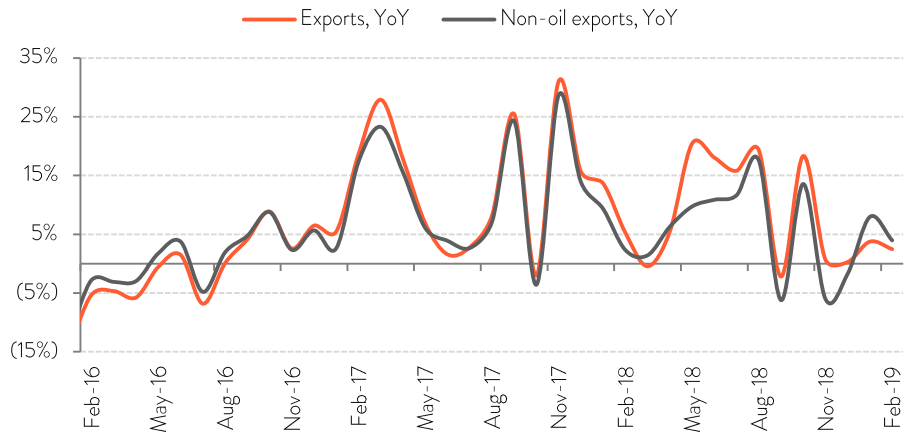
CAD at 2.4% of GDP in FY19: India's trade deficit narrowed to a 17-month low at US\$ 9.6bn in Feb'19 vs US\$ 14.7bn in Jan'19 and US\$ 12.3bn in Feb'18. For FYTD19, trade deficit is at US\$ 169.1bn vs US\$ 148.2bn in FYTD18. Oil imports have declined by (-) 5.8% in Jan-Feb'19 vs an average growth of 44.7% between Apr-Dec'18. With oil prices remaining at current levels, we estimate CAD at (-) US\$ 64.5bn in FY19 (2.4% of GDP). With a healthy pickup in FII inflows recently (US\$ 3.2bn in CYTD19), INR is likely to sustain its current rally. Uncertainty around general elections and global outlook remain key risks.

KEY HIGHLIGHTS

- Exports growth decelerates to 2.4% in Feb'19 from 3.7% in Jan'19.
- Import growth declined sharply to (-) 5.4% in Feb'19 from 0.9% in Jan'19.
- Trade deficit narrows to US\$ 9.6bn from US\$ 14.7bn in Jan'19.

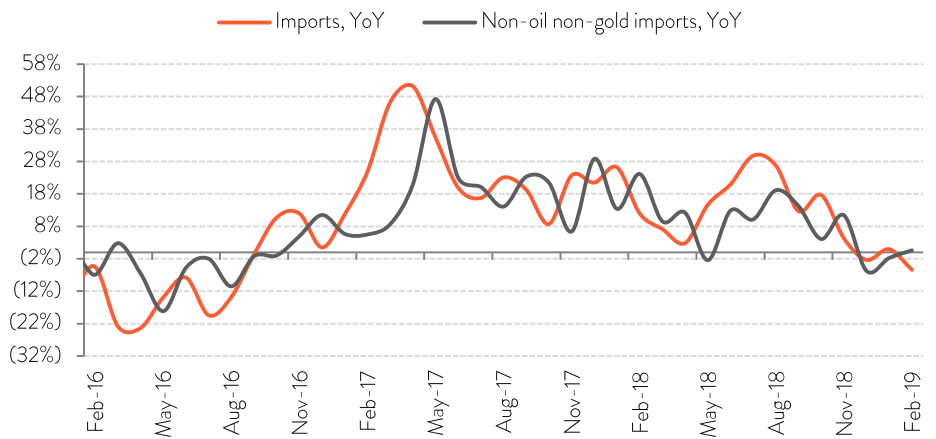


FIG 1 – EXPORT GROWTH SLIPS IN FEB'19



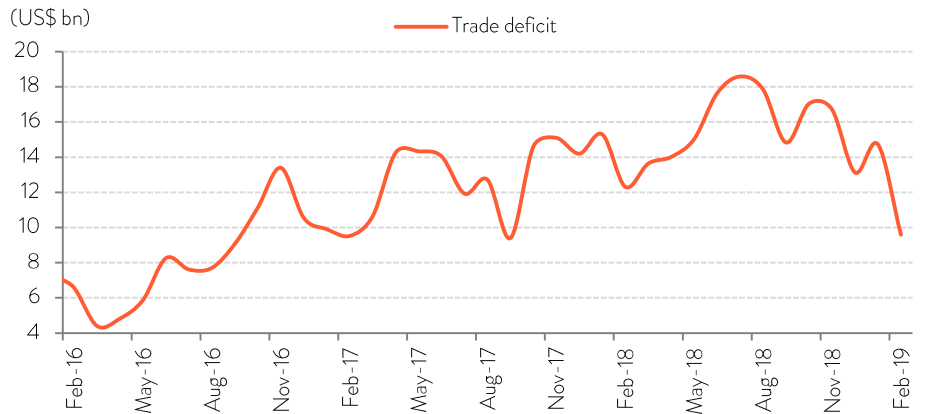
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS DECELERATING SHARPLY



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT LOWEST SINCE SEP'17



Source: CEIC, Bank of Baroda Research

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