

TRADE

02 July 2021

Exports see a stellar recovery

India's trade deficit rose to US\$ 9.4bn from US\$ 6.3bn in May'21 led by higher oil and non-oil-non-gold imports. Over a 2-year period, exports have risen by 29.7%. On the other hand, imports have increased by only 2%, led by lower gold imports. Non-oil-non-gold imports, barometer of demand, have increased by 11.3%. We expect non-oil imports to improve as domestic restrictions are eased. Exports are likely to remain buoyant implying a trade deficit of US\$ 165bn in FY22 (US\$ 102.2bn in FY21).

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Export growth steady: As per preliminary data, India's exports were stable at US\$ 32.5bn in Jun'21 compared with US\$ 32.3bn in May'21. However, on a low base exports have increased by 47.3% in Jun'21 on a YoY basis. Notably, exports had fallen by 12% in Jun'20. Oil exports have increased at a much faster pace at 105.2%. Non-oil exports are up by 41.8%. Within non-oil exports, engineering goods (52.6%) and gems and jewellery (80.5%) have risen the most. Notably, over a 2-year horizon (since Jun'19) exports have picked up sharply by 29.7% in Jun'21 compared with an 8.1% increase in May'21. Over the same time period, non-oil exports are up by 27.3% and oil exports have risen by 49.8%. Within non-oil exports, chemicals (62.4%), and engineering goods (41.7%) have risen the most. On the other hand, exports of gems and jewellery have fallen by 10.8%. Export growth is expected to remain resilient due to improvement in external demand.

Imports rise: India's imports rose to US\$ 41.9bn in Jun'21 from US\$ 38.6bn in May'21. On a YoY basis, the increase is quite steep at 96.3%. A low base explains this as imports fell by 48% in Jun'20. While oil imports have increased by 114.9% over the last year, non-oil-non-gold imports have risen by 91.9% to US\$ 30.2bn in Jun'21. Within this, imports of pearls and precious stones (305%) and electronics (45.3%) have increased the most. On the other hand, imports of silver (91.4%) and project goods (12.5%) declined in Jun'21. Over a 2-year horizon, imports have increased by only 2%, led by decline in gold (64%) and oil (4.7%) imports. Non-oil-non-gold imports have remained resilient and increased by 11.3%.

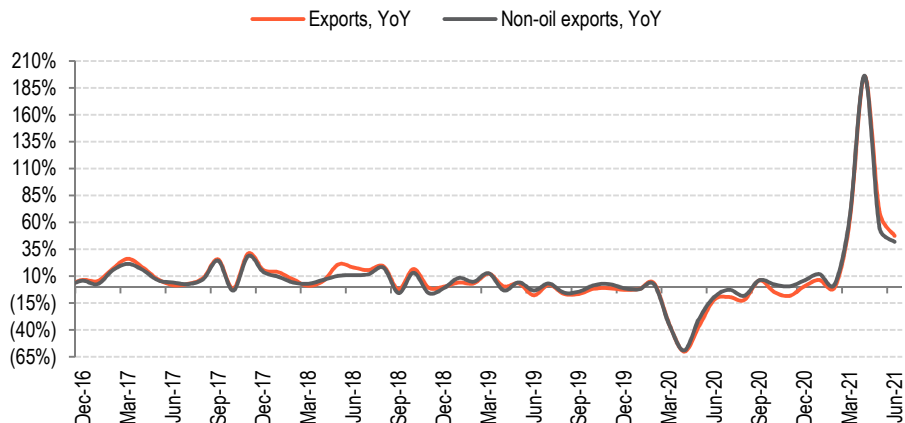
Trade deficit widens: India's trade deficit expanded to US\$ 9.4bn in Jun'21 from US\$ 6.3bn in May'21 led by higher oil and non-oil-non-gold imports. The pickup in non-oil-non-gold imports is likely to gain further momentum as domestic activity picks up. Oil imports are also likely to be higher due to rising oil prices. Exports have remained resilient so far and will see a pickup as global demand improves further. As a result, we expect trade deficit to widen to US\$ 165bn in FY22 from US\$ 102.2bn in FY21, assuming oil prices sustain at current levels (US\$ 75/bbl). Even so, CAD is likely to remain within 1.5% of GDP. Thus, we expect INR to trade in range of 73-75/\$. Higher oil prices and another Covid wave are a risk to our view.

Key highlights

- Exports steady at US\$ 32.5bn (47.3% YoY) in Jun'21 versus US\$ 32.3bn (69.4%) in May'21.
- Imports rose to US\$ 41.9bn (96.3% YoY) in Jun'21 versus US\$ 38.6bn in May'21.
- Oil imports rise further to US\$ 10.7bn in Jun'21
- Trade deficit expanded to US\$ 9.4bn in Jun'21 from US\$ 6.3bn in May'21.

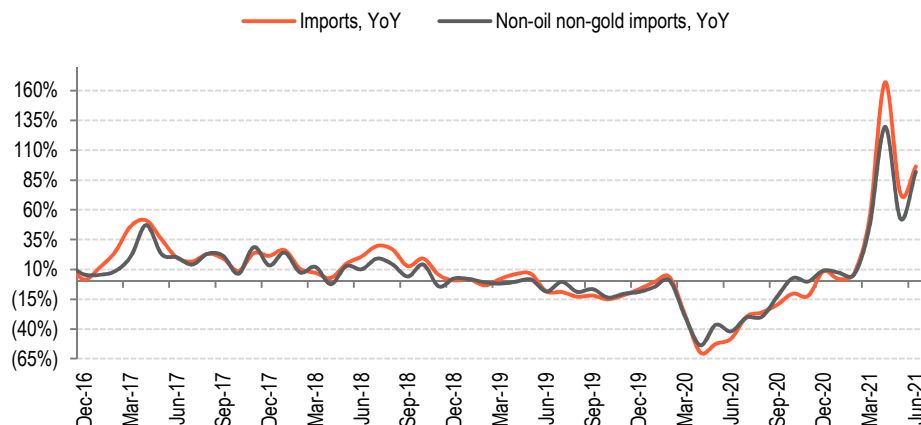


Fig 1 – EXPORT GROWTH STABLE



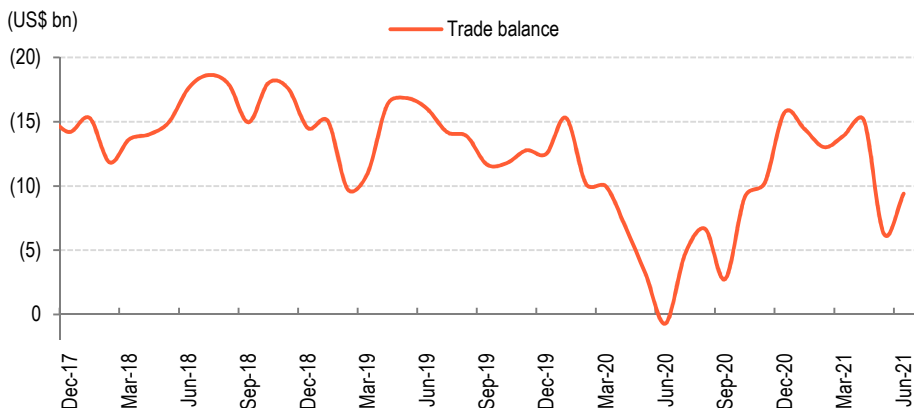
Source: CEIC, Bank of Baroda Research

Fig 2 – IMPORTS PICKING UP



Source: CEIC, Bank of Baroda Research

Fig 3 – TRADE DEFICIT EXPANDS



Source: CEIC, Bank of Baroda Research

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