TRADE

13 December 2019

Non-oil-non-gold imports fall sharply

India's trade deficit in Nov'19 rose to US$ 12.1bn versus US$ 11bn in Oct'19 led by higher gold and oil imports. Non-oil-non-gold imports contracted at the sharpest pace in 43-months due to weak domestic demand. Non-oil exports are showing some improvement. Thus we expect trade deficit to fall to US$ 161bn in FY20 (FYTD20 at US$ 110bn) from US$ 180bn in FY19. This will result in CAD of 1.2% of GDP (2.1% in FY19). This along with strong FDI/ FPI inflows explain the strength in INR which in our view is likely to continue.

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Deceleration in exports eases: Contraction in India's export growth eased to (-) 0.3% in Nov'19 from (-) 1% in Oct'19 led by 20.6% increase in pharma products (12.6% in Oct'19), 6.3% jump in engineering goods (1.2% in Oct'19) and 2.5% increase in chemicals (0.9% in Oct'19). On the other hand, gems & jewellery at (-) 8.1% in Nov'19 (6% in Oct'19) and textile products (-4%) contributed negatively. In FYTD20, exports have contracted by (-) 2.1% vs increase of 10.9% in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to contract. We expect export growth to remain muted in light of subdued global demand in CY20.

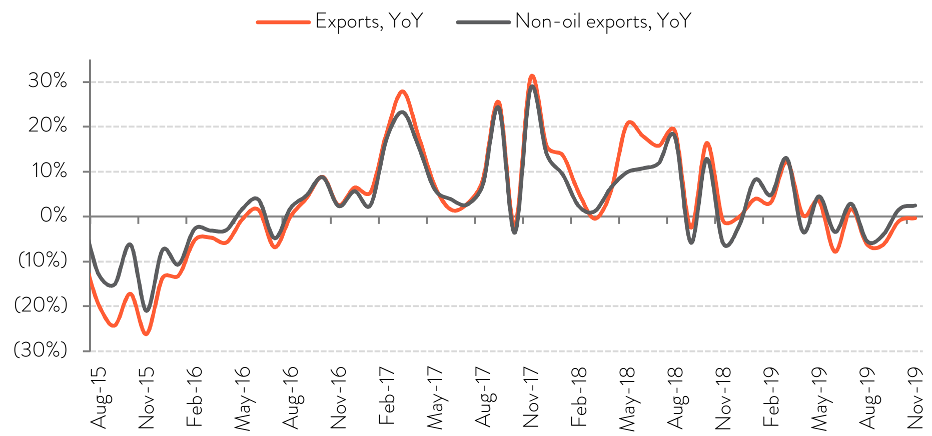
Non-oil-non-gold imports fall further: Imports contracted for the 6th straight month at (-) 12.7% in Nov'19 compared with (-) 16.3% in Oct'19. Gold imports edged up to 6.6% in Nov'19 versus 4.7% in Oct'19. Oil imports contracted at a slower pace of (-) 18.2% versus (-) 31.7% in Oct'19 as oil prices were higher by 5% (MoM). Notably, non-oil-non-gold imports contracted at the sharpest pace in the last 43-months at (-) 12% compared with (-) 10% in Oct'19. Capital goods (-21.8%), ores and minerals (-32.5%) and iron and steel (-26.2%) declined the most. Imports of pearls and precious metals (24.8%) and agricultural products (11%) increased the most.

Trade deficit is tad bit higher: India's trade deficit widened to US$ 12.1bn from US$ 11bn in Oct'19 due to higher gold and oil imports. Trade deficit in FYTD20 is now at US$ 110bn compared with US$ 133.8bn in FYTD19 as imports (-7.9%) have shrunk at a faster pace than exports (-2%). While lower oil prices have helped (oil imports are lower by US$ 12bn), non-oil-non-gold imports (-6.2%) too have remained sluggish due to slowdown in domestic demand. This is likely to persist even in Q4FY20. Hence, we expect FY20 trade deficit at US$ 161bn (5.5% of GDP) from US$ 180.3bn in FY19.

KEY HIGHLIGHTS

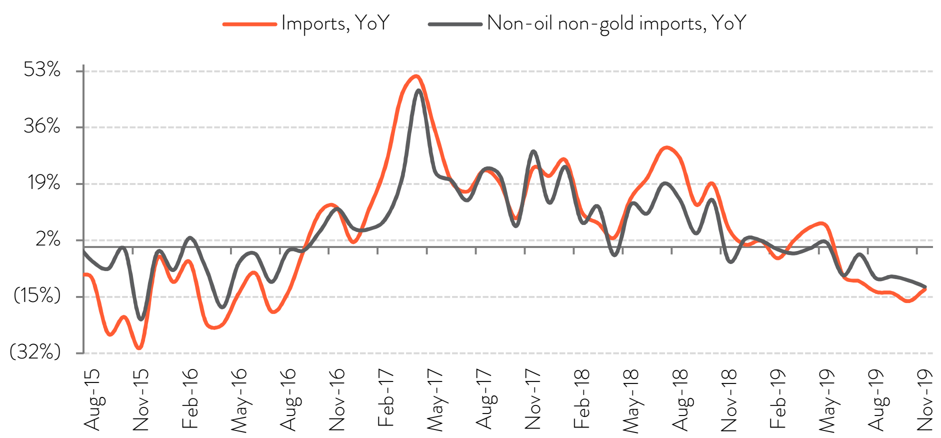
- Export growth at (-) 0.3% versus (-) 1% in Oct'19.
- Imports decline by (-) 12.7% compared with (-) 16.3% in Oct'19.
- Trade deficit widens to US$ 12.1bn versus US$ 11bn in Oct'19.

FIG 1 – EXPORTS DECLINE AT A LOWER PACE



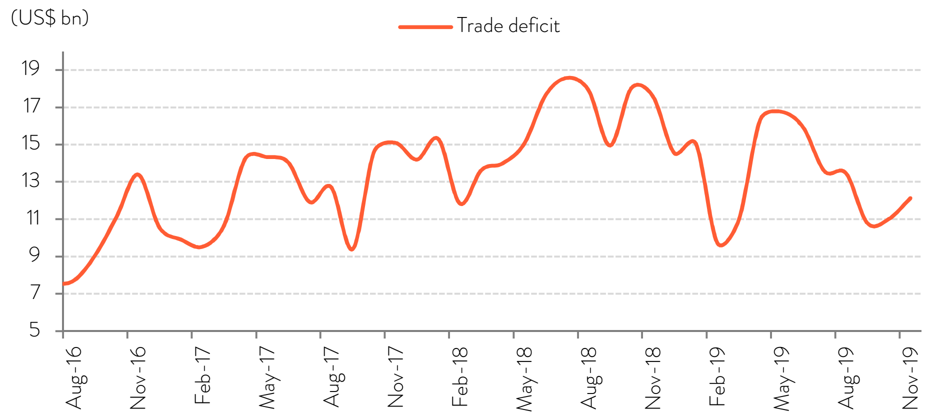
Source: CEIC, Bank of Baroda Research

FIG 2 – NON-OIL-NON-GOLD IMPORTS CONTINUE TO CONTRACT



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT WIDENS TO US$ 12.1BN



Source: CEIC, Bank of Baroda Research

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