बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

TRADE

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Gold and oil imports decline

India's trade deficit declined to US$ 13.4bn from US$ 15.3bn in Jun'19 on the back of higher exports and lower imports. The decline in imports was led by gold at (-) 42% followed by oil at (-) 22%. Non-oil-non-gold imports too fell. On the other hand, exports showed a marginal uptick led by pharma and chemicals. Lower oil prices and domestic slowdown has resulted in a decline in trade deficit this year. Given the muted global and domestic backdrop, this implies lower trade deficit in FY20 and thus a positive outlook for INR.

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Exports see marginal uptick: India's exports rose by 2.3% in Jul'19 vs (-) 9.7% in Jun'19. The revival was led by pharma products (21.7% vs 16.2% in Jun'19), organic chemicals (13.4% vs -8.2%) and textiles (1.3% vs -12.3%). Owing to decline in international prices, oil exports declined for the third consecutive month in Jul'19 (-5%). On a FYTD basis export growth is still weak at (-) 0.8%, compared with the same period last year at 15.4%. Region wise, the slowdown in exports is broad-based as global growth decelerates. Exports to Asia-Pacific (ex-China) and Europe have declined the most. Global slowdown implies export growth is likely to remain muted in the near-term.

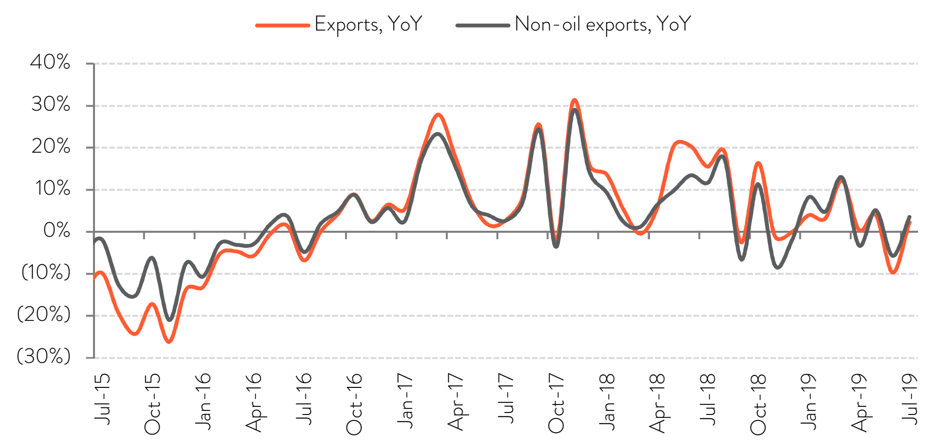
Imports fall: Imports continue to decline in Jul'19 by (-) 10.4% from (-) 9.1% in Jun'19. Gold imports plunged by (-) 42.2% in Jul'19 vs an increase of 13% in Jun'19. Led by lower oil prices, oil imports fell by (-) 22.1% in Jul'19 compared with (-) 13.3% in Jun'19. Non-oil-non-gold imports continued to contract albeit at a slower pace of (-) 2.2% in Jul'19 vs (-) 9% in Jun'19. This was led by lower imports of pearls and precious metals which contracted by (-) 31% in Jul'19. In addition, ores and minerals (-37.1%), non-ferrous metals (-8.8%) and capital goods (-4.4%) too added to the decline.

Lower trade deficit, positive for INR: India's trade deficit narrows to US$ 13.4bn in Jul'19 from US$ 15.3bn in Jun'19 on the back of broad-based decline in imports. Trade deficit has fallen to US$ 59.4bn in FYTD20 compared with US$ 64.2bn last year. Going ahead, subdued consumption demand coupled with lower oil prices is likely to ensure a lower trade deficit in FY20 compared with FY19. While INR has depreciated by (-) 2.3% in Aug'19 on the back of FPI outflows of US$ 1.3bn, lower oil prices bode well for INR. However, higher oil prices and sharper global growth slowdown remain a key risk to our view.

KEY HIGHLIGHTS

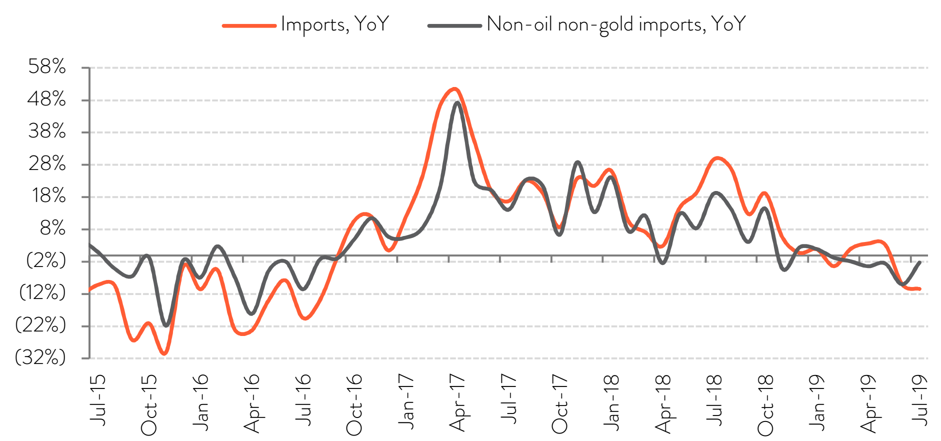
- Exports rise by 2.3% in Jul'19 compared with (-) 9.7% in Jun'19.
- Imports dip further by (-) 10.4% in Jul'19 compared with (-) 9.1% in Jun'19.
- Trade deficit declines to US$ 13.4bn in Jul'19 versus US$ 15.3bn in Jun'19.

FIG 1 – EXPORT GROWTH PICKS UP MARGINALLY IN JUL'19



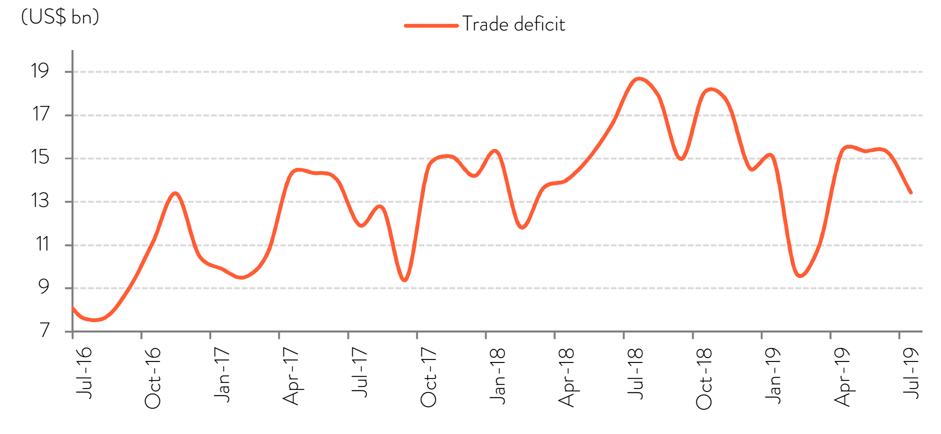
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS DIP FURTHER



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT DECLINES



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