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.

Sameer Narang
Aditi Gupta | Sonal Badhan
chief.economist@bankofbaroda.com

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.

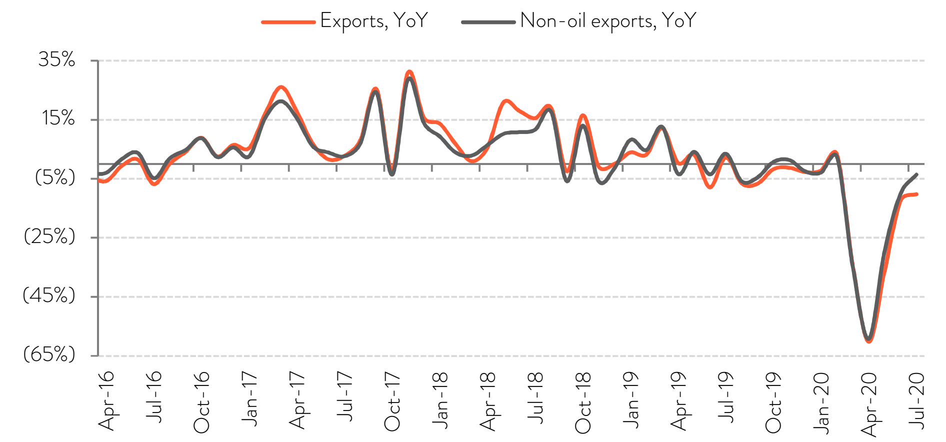
Imports pickup: Imports contracted by only 28.4% in Jul'20, after falling steeply by 47.6% in Jun'20 led by a 4.3% increase in gold imports (decline of 77.4% in Jun'20). Notably, gold prices increased by 30.4% YoY. Improvement was also seen in non-oil-non-gold imports which contracted by 29.2% in Jul'20 versus 41.4% drop in Jun'20. Imports of vegetables 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

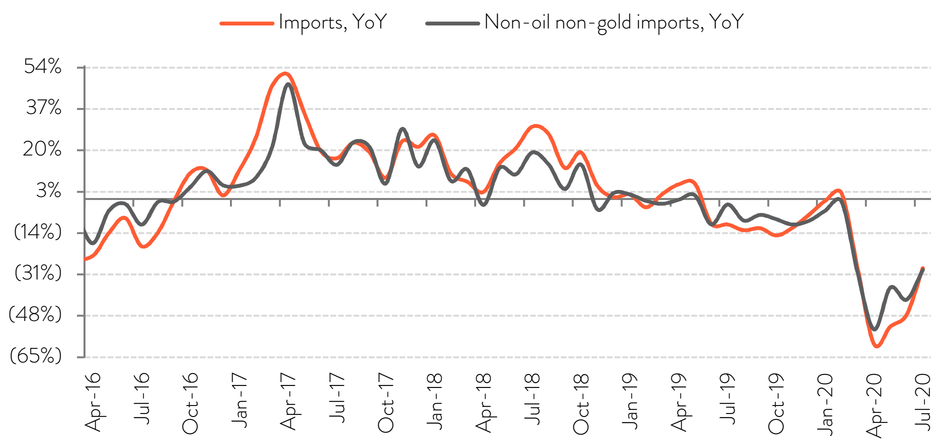
- Exports decline by 10.2% in Jul'20 versus 12.4% in Jun'20.
- Imports contract by 28.4% in Jul'20 compared with 47.6% in Jun'20.
- Trade deficit at US$ 4.8bn versus a surplus of US$ 0.8b in Jun'20.

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



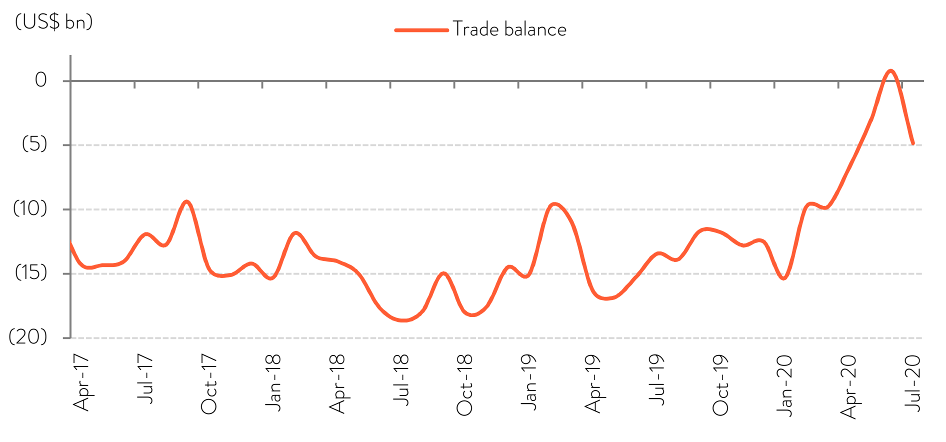
Source: CEIC, Bank of Baroda Research

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

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at **www.bankofbaroda.in**

For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com