TRADE

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Exports recover, imports falter

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India registered a trade surplus of US$ 0.8bn in Jun'20, a first in 18-years versus a deficit of US$ 3.1bn in May'20 as exports recovered. Imports fell by 47.6% on the back of lower oil and gold imports. Notably, non-oil-non-gold-imports fell by 41.4% in Jun'20. This is attributable to weak domestic demand. We expect imports to pick-up in H2 as economic activity revives. Large FDI inflows should make up for the loss in services receipts and FII outflows. Hence INR is likely to remain in the range of 74-76/$ in FY21.

KEY HIGHLIGHTS

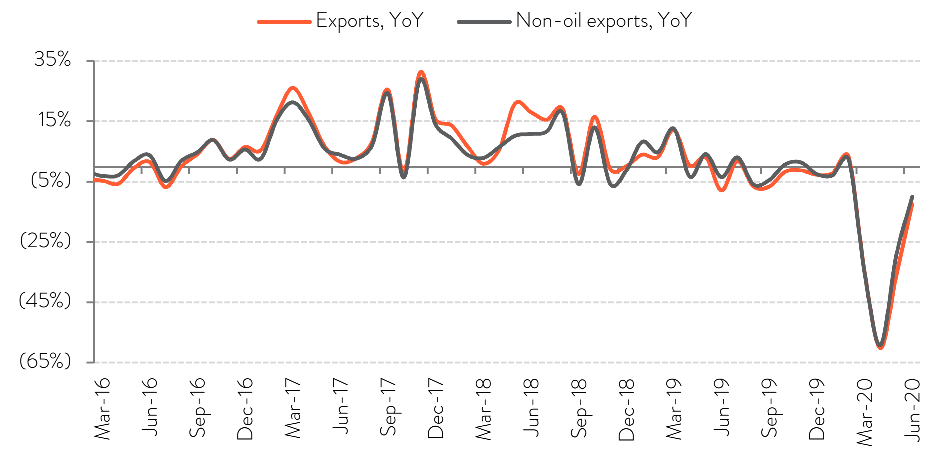
- Exports contract by 12.4% in Jun'20 versus 36.2% in May'20.
- Imports also decline by 47.6% compared with 51.1%in May'20.
- Trade surplus recorded in Jun'20 for the first time since CY02 at US$ 0.8bn versus US$ 3.1bn deficit in May'20.

Exports recovering slowly: India's exports contracted by 12.4% in Jun'20 versus a decline of 36.2% in May'20. Sharp turnaround was seen in exports of chemicals (19.1% increase versus 12.7% decline in May'20) and agri products (8.4% increase versus 12.4% drop in May'20). Apart from this, moderation was seen in pace of contraction for engineering goods (7.5% versus 24.2% in May'20) and textiles (23.4% versus 58.7%). In Q1FY21, exports recorded a decline of 37% from a drop of 13% in Q4FY20. With global demand gradually improving, exports will show further recovery in the coming months.

Imports decelerate: Imports continued to show steep decline of 47.6% compared with 51.1% in May'20. Oil and gold imports fell by 55.3% and 77.4% in Jun'20 compared with a decline of 72.3% and 98.4% respectively in May'20. However, non-oil-non-gold-imports saw a steeper decline of 41.4% in Jun'20 versus 36.4% in May'20. This was led by 42.1% decline in imports of capital goods (33.6% in May'20). Imports of pearls and precious stones fell by 70% and that of electronics by 34.1%. However, imports of vegetable oils (8.5%) and agriculture products (1.2%) increased.

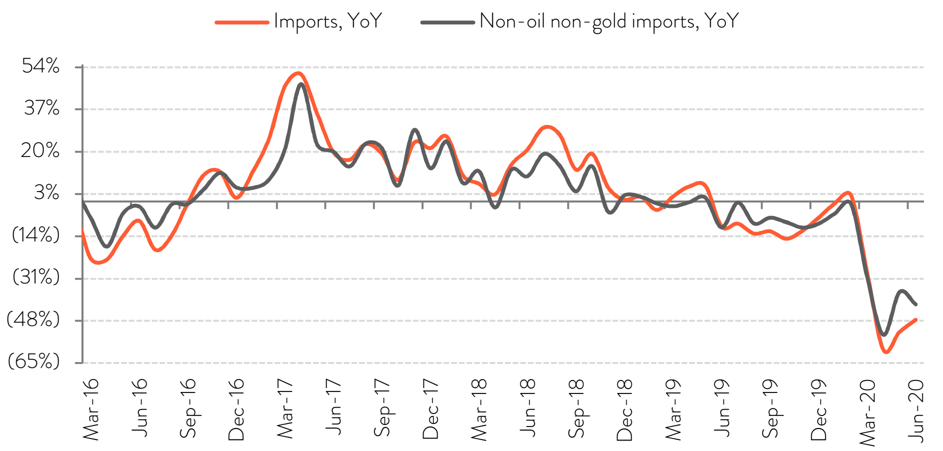
First trade surplus in 18-years: India registered its highest ever trade surplus in at US$ 0.8bn in Jun'20 versus a deficit of US$ 3.1bn in May'20. In Q1FY21, trade deficit has narrowed to US$ 9.1bn compared with US$ 48.5bn in Q1FY20 as imports have contracted at a much faster pace because of India's lockdown. India's non-oil import demand is likely to remain muted as COVID-19 related local shutdowns will impact incomes and demand. Further, while oil prices on an average are lower than last year. In addition, robust FDI inflows will help make up for declining services exports (decline of 9.6% in Apr-May'20) and FII outflows (US$ 455mn during FYTD). Hence, INR is likely to remain range bound in the near-term.

FIG 1 – EXPORTS RECOVER FURTHER IN JUN'20



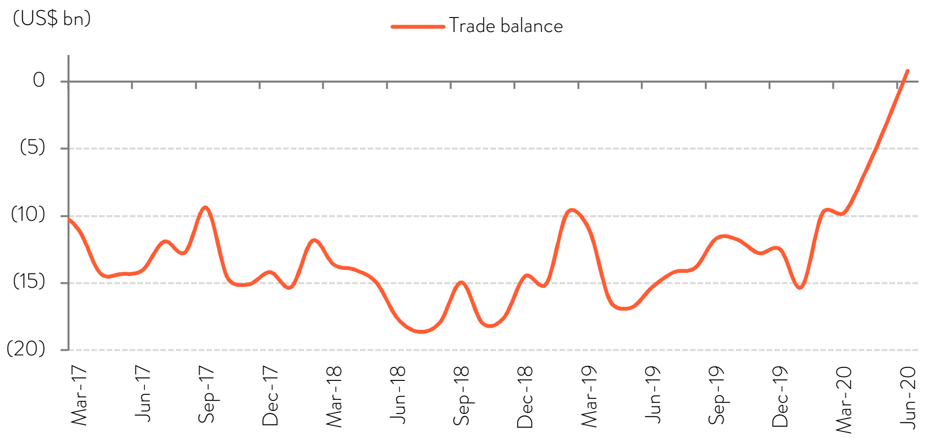
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORT GROWTH REMAINS WEAK IN JUN'20



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE SURPLUS A FIRST IN 18 YEARS



Source: CEIC, Bank of Baroda Research

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