TRADE

15 June 2020

Exports recover faster than imports

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India's trade deficit narrowed sharply to US$ 3.2bn in May'20 from US$ 6.8bn in Apr'20. The MoM improvement was driven by a sharp recovery in exports from a decline of 60.3% in Apr'20 to a reduction of 36.5% in May'20. Imports declined by 51% in May'20 (58.6% in Apr'20). Non-oil-non-gold imports recovered a bit. Given low international oil prices and muted domestic demand, we expect India to report a current account surplus. Thus we believe INR is likely to see an appreciating bias in coming months.

Exports seen recovering: India's exports contracted by 36.5% in May'20 from a decline of 60.3% in Apr'20. This was led by sharp increase in pharma exports at 17.3% in May'20 versus 0.3% in Apr'20. Apart from oil, the pace of decline in other export categories was lower led by organic chemicals (12.7% versus 41.9%), engineering goods (24.2% versus 64.8%) and gems and jewelry (68.8% versus 98.7%). Oil exports were lower by 68.5% compared with 66.2% decline in Apr'20. With global demand gradually improving, exports will show recovery in the coming months.

Non-oil-non-gold imports show some recovery: Imports contracted by 51.1% in May'20 from a decline of 58.6% in Apr'20. Oil imports declined by 71.9% in May'20 compared with 59% fall in Apr'20. Gold imports declined by 98.4% versus a fall of 99.9% in Apr'20. Non-oil-non-gold imports continued to contract, although, pace of decline is now at 33.8% compared with 52.2% in Apr'20. Decline in non-oil-non-gold imports was driven by pearls and precious metals (77.1%) and electronics (40.3%). Capital goods imports recovered marginally to decline by 33.6% versus a decline of 54.2% in Apr'20, as industrial activity restarted.

External balance favourable: India's trade deficit narrowed to its lowest since Mar'09 at US$ 3.2bn compared with US$ 6.8bn in Apr'20. Trade deficit has narrowed for the 4th straight month this year led by lower imports. Non-oil-non-gold imports may see moderate recovery as lockdown restrictions are lifted. Even so, recovery will be gradual. Oil prices are also likely to remain subdued due to weak global demand. This should keep trade deficit in check and also offset the decline in remittances and services exports, leading to a current account surplus in FY21. We thus see INR reverting back to 73/$ - 74/$ level in FY21.

KEY HIGHLIGHTS

- Exports contract by 36.5% in May'20 versus 60.3% in Apr'20.
- Imports also decline by 51.1% compared with 58.6%in Apr'20.
- Trade deficit narrows to US$ 3.2bn, likely to remain subdued in FY21.

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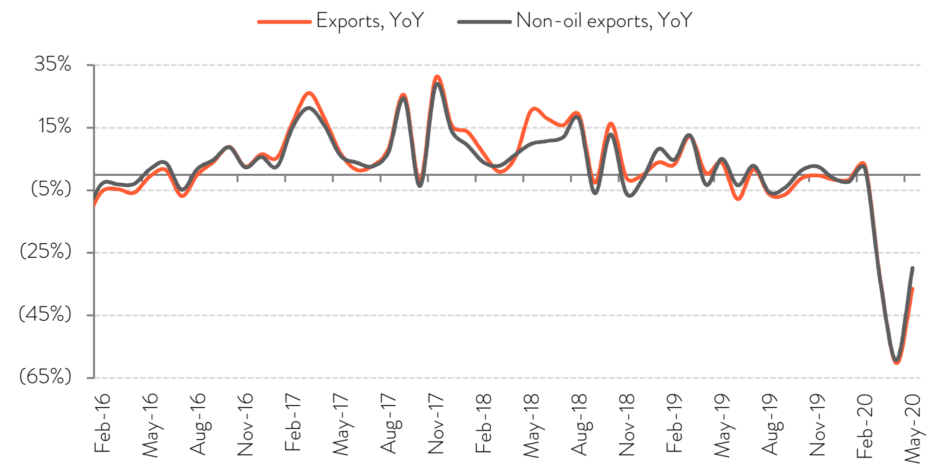
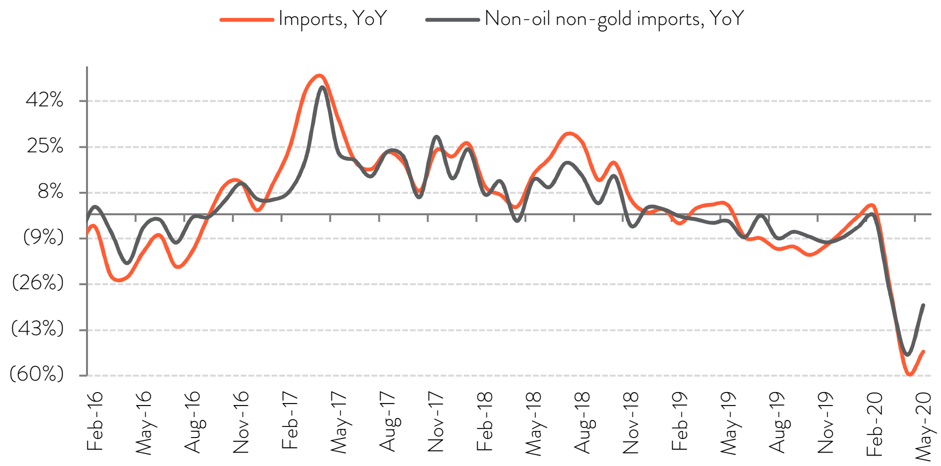
FIG 1 – SOME IMPROVEMENT IN EXPORTS IN MAY'20



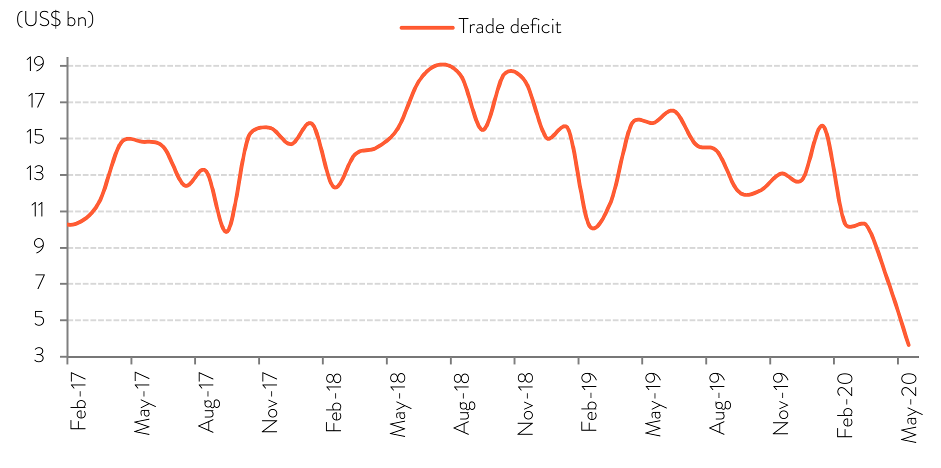
Source: CEIC, Bank of Baroda Research

FIG 2 – SIMILAR TREND VISIBLE IN IMPORTS



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT NARROWS FURTHER



Source: CEIC, Bank of Baroda Research

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