

TRADE

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Exports shine, oil and gold imports accelerate

India's trade deficit rose to US\$ 11.2bn in Jul'21 from US\$ 9.4bn in Jun'21 led by higher oil and gold imports. Exports continue to accelerate. Non-oil exports (over a 2-year horizon) are 21.1% higher in FYTD22. We expect exports to be a driver of growth. With states gradually easing restrictions, imports are also likely to increase. Non-oil-non-gold imports have been muted at 3.8% in FYTD22 (over a 2-year period). Above backdrop implies INR is expected to move in a tight range of 73-75/\$ in the financial year.

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Exports accelerate: As per preliminary data, India's exports rose to US\$ 35.2bn (47.9% over Jul'20) in Jul'21 from US\$ 32.5bn (34.1%) in Jun'21. The rebound can be explained by a low base (9.3% decline in Jul'20) and a sharp increase in oil at 215.7%. Even so, non-oil exports increased by 34.4%. Within non-oil exports, gems and jewellery (130.4%) and engineering goods (42.1%) rose the most. Even over a 2-year horizon exports have picked up sharply by 34.1% in Jul'21. Over the same time period, non-oil exports are up by 30% and oil exports have risen by 60.5%. In FYTD22, exports are tracking higher at US\$ 130.6bn versus US\$ 75.2bn in FYTD21 and US\$ 107.1bn in FYTD20. Momentum is expected to remain strong on the back of higher external demand.

Imports on an upward trajectory: India's imports rose to US\$ 46.4bn in Jul'21 from US\$ 41.9bn in Jun'21. On a YoY basis, imports increased by 59.4% in Jul'21 (decline of 28% in Jul'20). This was lower than increase of 98.3% in Jun'21 which came on a decline of 48.5% in Jun'20. Gold imports rose to US\$ 4.2bn in Jul'21 from US\$ 1bn in Jun'21. Oil imports too rose to US\$ 12.9bn in Jul'21 versus US\$ 10.7bn in Jun'21. Non-oil-non-gold imports were stable at US\$ 29.3bn versus US\$ 30.2bn in Jun'21. Within this, imports of pearls and precious stones rose the most by 179.3%. Capital goods imports continue to lag behind with a 16.1% decline in transport equipment and 78.6% dip in project goods. Over a 2-year horizon, imports have increased by 14.8%, led by a surge in gold (145.4%) and oil (32.3%) imports. Non-oil-non-gold imports have remained muted at 1.2%.

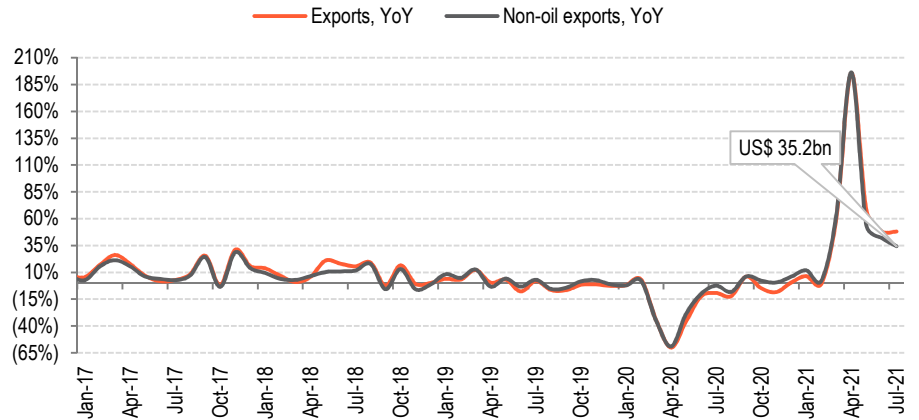
Trade deficit widens further: India's trade deficit expanded to US\$ 11.2bn in Jul'21 from US\$ 9.4bn in Jun'21 as imports, particularly gold and oil imports rose sharply. However, this was offset by a sharp rebound in exports. Prospects for India's exports remain positive led by strong recovery in advanced economies. Imports are also likely to be higher due to higher oil prices and improvement in domestic demand in coming months. Hence, we expect trade deficit to widen to US\$ 152bn in FY22 from US\$ 102bn in FY21 (Brent at US\$ 75/bbl). Even so, CAD is likely to remain within ~1% of GDP. Thus, we expect INR to trade in a tight range of 73-75/\$. Higher oil prices and another Covid-19 wave remain key risks to our view.

Key highlights

- Exports rise to a lifetime high of US\$ 35.2bn in Jul'21 from US\$ 32.5bn in Jun'21.
- Imports rose to US\$ 46.4bn (59.4% YoY) in Jul'21 versus US\$ 41.9bn in Jun'21.
- Oil imports rise further to US\$ 12.9bn in Jul'21; gold imports also increase to US\$ 4.2bn.
- Trade deficit expanded to US\$ 11.2bn in Jul'21 from US\$ 9.4bn in Jun'21.

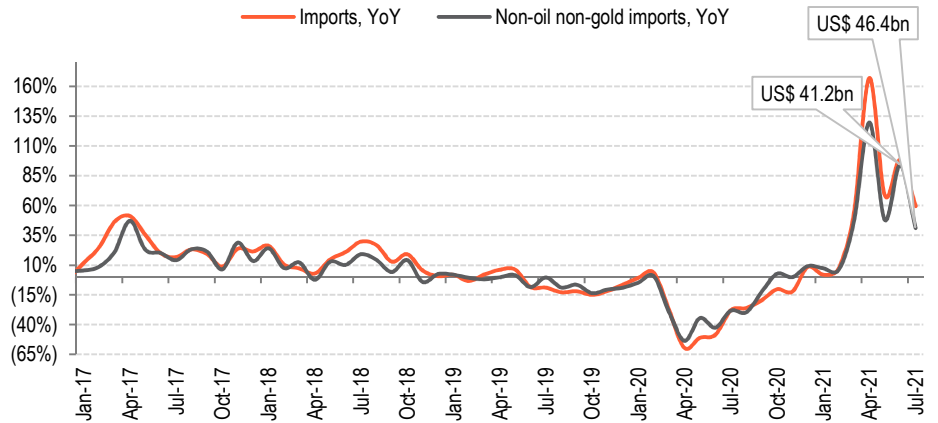


Fig 1 – Export growth picking up pace



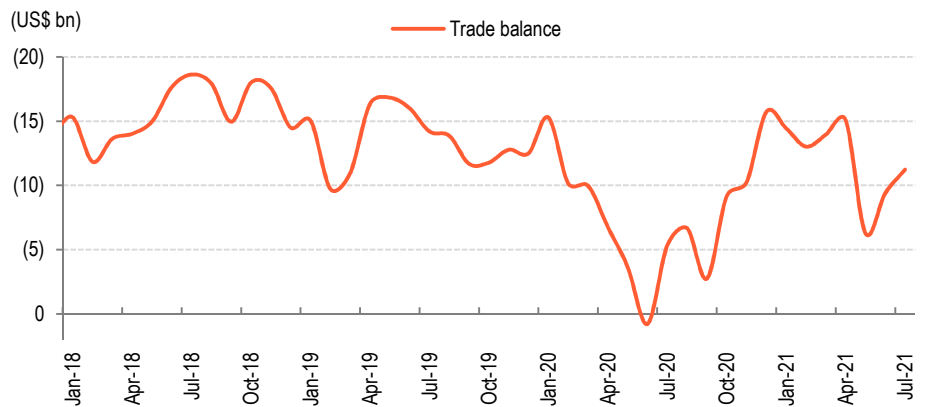
Source: CEIC, Bank of Baroda Research

Fig 2 – Imports also increasing



Source: CEIC, Bank of Baroda Research

Fig 3 – Trade deficit expands



Source: CEIC, Bank of Baroda Research

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