

TRADE

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Trade deficit widens led by higher gold imports

India's trade deficit rose to US\$ 13.9bn in Aug'21 from US\$ 11bn in Jul'21 led by higher gold imports. While exports did ease from Jul'21 levels, export momentum—goods and services—is likely to sustain as global recovery continues. India's non-oil-non-gold imports reported a 4% increase over a 2-year horizon compared with a 1% drop in Jul'21. We expect non-oil-non-gold imports to increase as demand recovers. We expect trade deficit at US\$ 150bn and INR in 73-75 range to US\$ in FY22.

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Exports soften: As per preliminary data, India's exports eased marginally to US\$ 33.1bn (45.2% YoY) in Aug'21 from US\$ 35.4bn (49.9% YoY) in Jul'21. The dip was led by lower oil exports which fell to US\$ 4.6bn from US\$ 5.9bn in Jul'21. Non-oil exports fell marginally on a MoM basis to US\$ 28.6bn from US\$ 29.6bn in Jul'21. Within non-oil exports, engineering goods at US\$ 9.6bn, an increase of 58.8% YoY, and gems and jewellery at US\$ 3.4bn, a jump of 88% YoY, reported the highest growth. Organic chemicals exports increased by 35.8% to US\$ 2.2bn. Over a 2-year horizon, exports have slowed to 27.5% in Aug'21 from an increase of 35.1% seen in Jul'21 led by oil exports at 42.2% versus 69.2% in Jul'21. Non-oil exports have decelerated to 25.5% versus 30% in Jul'21. In FYTD22, exports are tracking higher at US\$ 164bn versus US\$ 97.7bn in FYTD21 and US\$ 133.1bn in FYTD20.

Imports up over 2-year horizon: India's imports rose to US\$ 47bn in Aug'21 from US\$ 46.4bn in Jul'21. On a YoY basis, imports increased by 51.5% in Aug'21 (decline of 22% in Aug'20), slightly lower than 63% increase seen in Jul'21 (on a decline of 29.6% in Jul'20). Gold imports rose to US\$ 6.7bn in Aug'21 from US\$ 4.2bn in Jul'21. Oil imports fell to US\$ 11.6bn in Aug'21 versus 12.9bn in Jul'21. Non-oil-non-gold imports were steady at US\$ 28.6bn versus US\$ 29.3bn in Jul'21. Imports of iron and steel rose the most at 107.6%, followed by precious stones at 92.6%. Electronic goods imports rose by 25.2%. Over a 2-year horizon, imports have increased by 17.9%, led by a surge in gold imports (394.3% higher). Non-oil-non-gold imports are marginally higher by 4.2% from a decline of 1% in Jul'21.

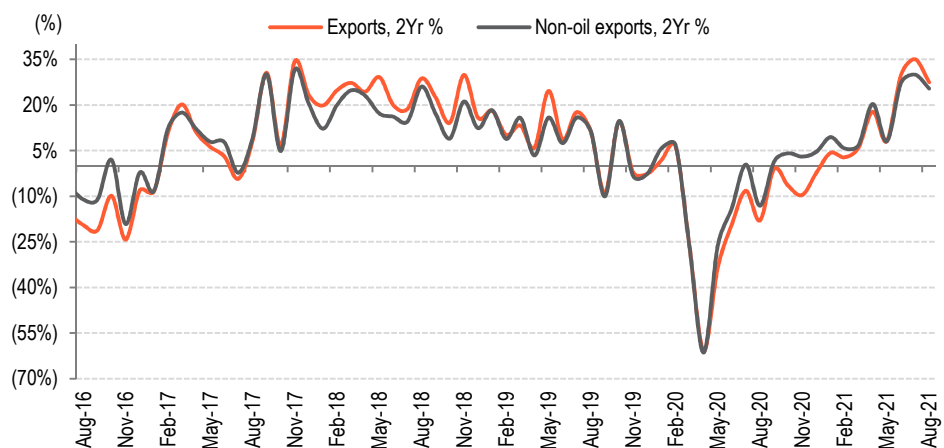
Trade deficit expands further: India's trade deficit widened to US\$ 13.9bn in Aug'21 from US\$ 11.2bn in Jul'21 as gold imports rose sharply. Exports, both oil and non-oil, were marginally lower MoM. Exports are likely to maintain growth momentum on the back of global recovery. At the same time, imports are also likely to show an increase as domestic demand picks up. Hence, we expect trade deficit to widen to ~US\$ 150bn 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 eased to US\$ 33.1bn in Aug'21 from US\$ 35.4bn in Jul'21.
- Imports rose to US\$ 47bn (51.5% YoY) in Aug'21 versus US\$ 46.4bn in Jul'21.
- Gold imports rose to US\$ 6.7bn in Aug'21; oil imports eased to US\$ 11.6bn.
- Trade deficit expanded to US\$ 13.9bn in Aug'21 from US\$ 11bn in Jul'21.

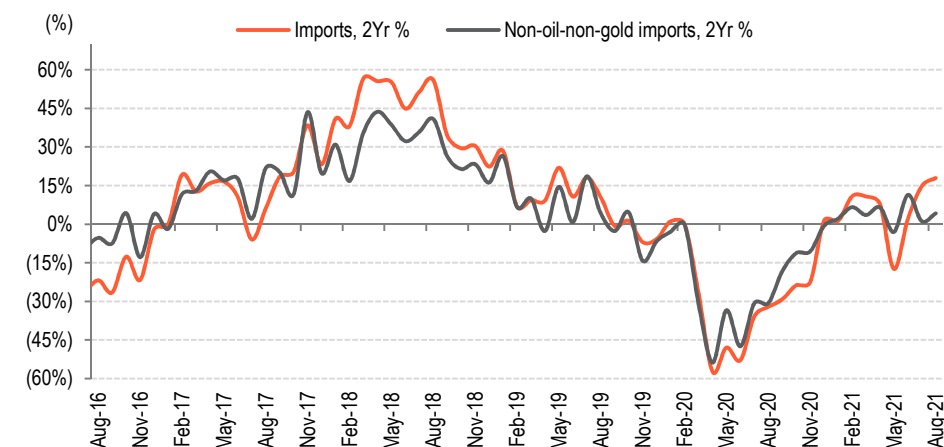


Fig 1 – Export growth eased over 2-year horizon



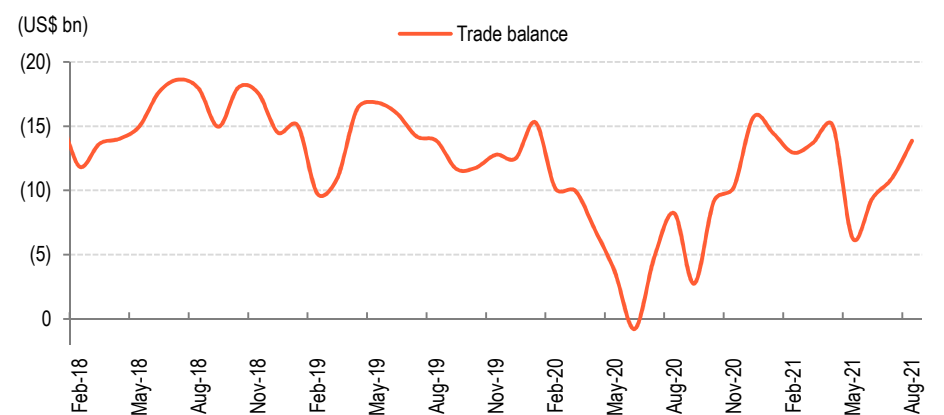
Source: CEIC, Bank of Baroda Research

Fig 2 – Import growth remains higher over 2-year horizon



Source: CEIC, Bank of Baroda Research

Fig 3 – Trade deficit expanded further in Aug'21



Source: CEIC, Bank of Baroda Research

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