

# Economics

## External sector remains key tailwind

### Focal point: Downside to FY24E CAD likely

Merchandise trade deficit in December 2023 has narrowed to its lowest levels since July 2023 as exports rose at a faster pace than imports. Services exports sustained at a healthy pace to keep overall net exports at comfortable levels, thereby providing potential downside to current account deficit estimates for FY24. We see current account deficit of 1.3% of GDP in FY24E. Continued comfort on external sector indicators amid the positive outlook for flows – both debt & equity – and the US Fed's recent policy pivot should support appreciation of the INR. We expect a USD-INR rate at 81.0-81.5 by March 2025E.

The key risk to monitor is continuity of geopolitical tensions, which if they were to escalate, would become a risk for India's merchandise trade. If the risks persist, we expect FY24E exports growth to drop by 8.7% vs a 7.2% YoY decline under base case.

### Rising exports narrows trade deficit for December

India's merchandise trade deficit narrowed to USD 19.8bn in December 2023 vs USD 20.6bn in November 2023 as sequentially exports grew at double the pace of imports. On a YoY basis, merchandise exports increased by ~0.9% YoY to ~USD 38.4bn in December vs ~2.8% YoY decline in November. Imports rose to USD 58.25bn but was down 4.8% YoY in December vs a 4.3% YoY decline in November. Core imports rose USD 3.3bn to ~USD 37.9bn in December, the highest levels since August 2023.

In this fiscal, merchandise trade deficit touched ~USD 188.0bn to date, vs ~USD 212.3bn during the same period last year. Services trade surplus is at ~USD 118.7bn vs ~USD 104.2bn during April-December FY23.

### CAD at 1.3% in FY24E; impact minimal from the Red Sea crisis

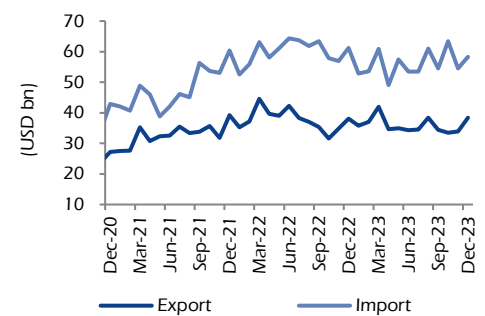
We see FY24E CAD at 1.3% from earlier 1.5%. Key risk to our call is expected to come from supply chain dislocation due to geopolitical crisis, which could jolt merchandise exports. Our Elara Supply Chain Pressure Index rose 33.2% in January 2024 to date vs ~21% rise in full December 2023 on sequentially MoM basis. However, recent moderation in the Baltic Dry Index indicates that with demand staying muted, sustained supply-side crisis is unlikely as during CY21-22.

Under a moderate risk scenario, FY24E exports can drop by ~USD 7bn with exports to Europe (~23% share in India's merchandise exports in FY23) declining by 3.5% YoY. However, provided services trade balance remains steady or moderate slightly; we expect the impact of Red Sea crisis to be minimal, pushing FY24E CAD higher by 20bp.

### External ratios remain comfortable; flows continue to come in

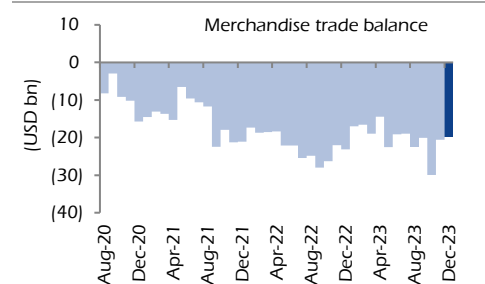
India's imports coverage ratio stands at 10.7x (9.4x long-term average until February 2020). External short-term debt coverage has been on an increasing trend and stands at ~4.8x vs 4.0x (average of January 2010 to February 2020). Net FII flows have started on a strong note with the first half of January 2024 witnessing net inflows of ~USD 1.7bn (equity + debt) after ~USD 10.1bn in December 2023.

### Exports and imports rise in December



Source: CEIC, Elara Securities Research

### Trade deficit narrows in December



Source: CEIC, Elara Securities Research

### ...as does the trade deficit



Source: CEIC, Elara Securities Research

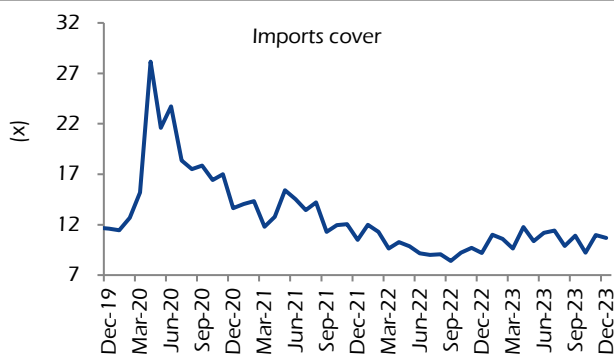
**Merchandise exports rises sequentially**

Overall merchandise exports picked up pace in December on a sequential MoM basis. Notable products with robust growth in merchandise exports in December include iron ore at ~265.6%) and tobacco at ~38.9%. Among India’s Top 5 manufactured goods, electronics goods recorded ~14.4% YoY, recording the highest monthly exports of electronics in the current financial year to date. Gems and Jewelry was up ~14.1% YoY while engineering goods increased ~10.2% YoY.

**Merchandise imports growth declines MoM**

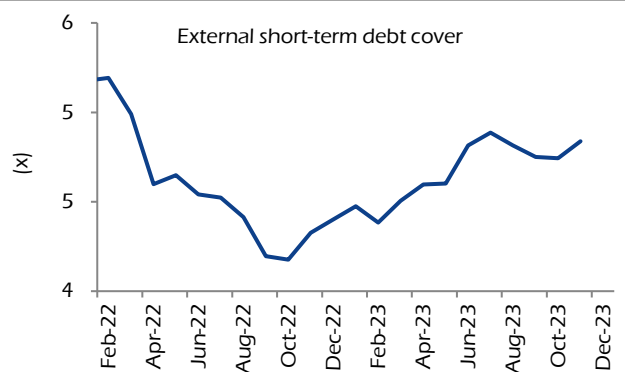
Overall imports recorded a decline of ~4.8% YoY in December vs ~a 4.3% YoY drop in November. However, sequentially, imports recorded growth of 7% in December, led by higher demand for non-petroleum products. Among merchandise imports, oil and petroleum product imports fell by ~22.8% YoY and electronic goods imports rose ~48.5% YoY in December to USD 9.4bn, recording the highest monthly imports of electronics in the current financial year to date. Potential shortage of pulses, owing to muted sowing in the Rabi season, is likely to keep imports of pulses elevated, imports of which was up ~25% YoY in December 2023.

**Exhibit 1: Imports cover in a comfortable zone...**



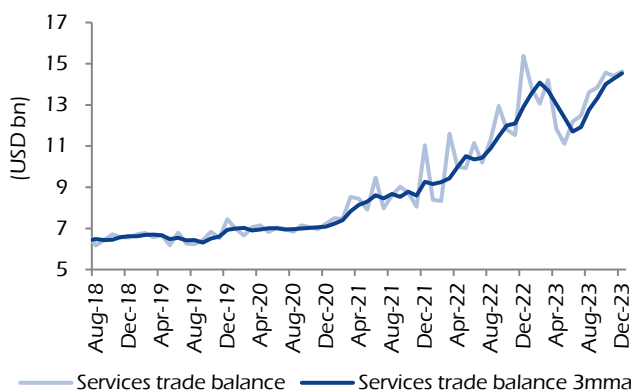
Source: CEIC, Elara Securities Estimate

**Exhibit 2: ...so is the external short-term debt cover**



Source: CEIC, Elara Securities Estimate

**Exhibit 3: Services trade surplus continues to rise**



Source: CEIC, Elara Securities Research

**Exhibit 4: Top 5 exports and imports in December**

Exports (% YoY)	December 2023
Iron ore	265.6
Tobacco	38.9
Meat, dairy & poultry	29.8
Spices	27.7
Fruits & vegetables	25.4
Imports (% YoY)	Dec-23
Gold	156.5
Gold & silver	134.6
Cotton & raw materials	67.6
Electronic goods	48.5
Pulses	25.1

Source: CEIC, Elara Securities Research

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