

Trade balance

Deficit narrows; Q2 CAD/GDP tracking a healthy 1.1%

Economy

Monthly Trade

October 13, 2023

The Sep-23 trade deficit (USD19.4bn) was driven by imports falling more than exports, while downward revisions for July and August mean that H1FY24 deficit is ~18% lower than last year. Oil imports fell sharply, reflecting lower volume, as did gold imports, while core imports for H1FY24 decreased due to weak domestic demand. Services surplus increased on the back of healthy software exports. Q2FY24 CAD/GDP is tracking 1.1%, akin to Q1. The lower deficit numbers provide downside risk to FY24E CAD/GDP of 1.4%.

Merchandise trade deficit

Merchandise trade deficit decreased to USD19.4bn in Sep-23 vs. the downward-revised Aug-23 deficit of USD21.7bn, with imports (USD53.8bn, -10.5% MoM) marginally declining more than exports (USD34.5bn, -10.4% MoM) on a sequential basis. Also, growth remained negative on YoY basis for both (exports: -2.6%, imports: -15.0%). August and July deficits have been revised down by ~10%, leading to Q2FY24 deficit coming in at USD59.6bn vs USD56.3bn in Q1FY24. Thus, for H1FY24, exports clocked-in USD211.4bn (-8.8% vs H1FY23), while imports stood at USD327.2bn (-12.2% vs H1FY23). The H1FY24 deficit of USD115.9bn is, hence, 17.7% lower than that in H1FY23.

Merchandise trade deficit grows as imports rise more than exports

Oil exports increased 10.3% MoM (-10.6% YoY) on the back of higher crude oil prices during the month. Non-oil non-gold (core) exports fell though, by 17.3% MoM (1.9% YoY), reflecting a slowdown in global demand. Among the top-five export categories, gems & jewelry (22.5% MoM, 9.0% YoY) and drugs & pharma (6.8% MoM, 9.0% YoY) saw positive sequential growth. For H1FY24, core exports were marginally higher than last year's (USD160.8bn, 0.3% YoY), while oil exports stand significantly lower (USD35.0bn, -31.2% YoY). The fall in imports was driven by both lower oil and core imports. Oil imports declined 8.5% MoM (-20.3% YoY), despite the Indian basket averaging at USD94/bl during the month (8.2% MoM increase). This implies a sharp fall in import volumes, possibly on account of refinery maintenance during the month. Gold imports declined (-16.8% MoM, 9.8% YoY) to USD4.1bn for the month — this is likely a breather after the heavy imports in August ahead of the festive season. Core imports fell 8.3% MoM (-5.0% YoY), while coming in 8.3% lower for H1FY24, reflecting weak domestic demand. Oil imports in H1FY24 were 21% lower than in H1FY23 (USD83.8bn), while gold imports rose 9.8% (USD22.3bn), largely on higher gold prices.

Services trade surplus sees a marginal increase

Services trade remained in surplus, recording an uptick on sequential basis. Services trade surplus for Sep-23 was USD14.5bn vs. USD13.6bn in Aug-23, with exports (USD29.4bn) increasing 2.3% and imports (USD14.9bn) falling 1.3%. On YoY basis, services exports rose 0.5%, while imports decreased 8.4%. For H1FY24, services exports have grown ~6%, while imports have declined ~1%, leading to the services trade surplus increasing ~16% to USD75.7bn. Software exports have been aided by resilient growth in USA so far, but potential weak external demand ahead could weigh on services exports in H2FY24.

We maintain our FY24E CAD/GDP at 1.4%

This month's lower-than-expected trade deficit, along with downward revisions for July and August, has meant that the CAD/GDP for Q2 is likely to log at 1.1%, similar to Q1, and much lower than the earlier estimate. This trend points to some downside risks now to our FY24E CAD/GDP of 1.4%, even after assuming some widening in the deficit in Q3FY24. Weak external demand and potentially-higher crude oil prices provide upside risks to our forecast.

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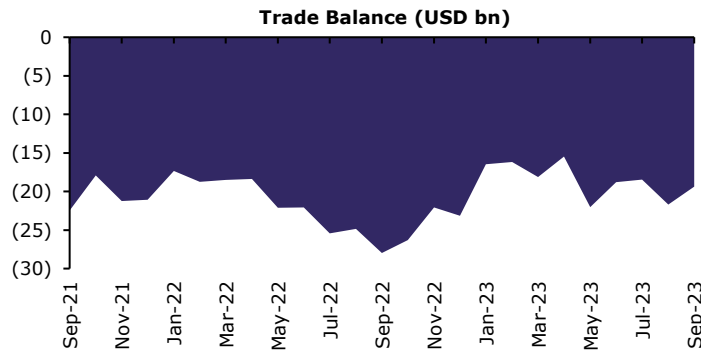
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Key highlights:

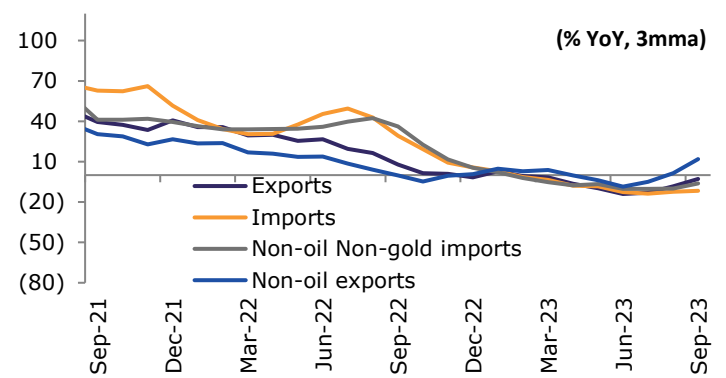
- **Sep-23 trade deficit at USD19.4bn**
- **Imports and exports fall sharply on sequential basis**
- **Gold imports decrease from Aug; Oil imports decline sharply**
- **Services surplus rises**
- **We maintain our FY24 CAD/GDP forecast at 1.4%**

Exhibit 1: Trade deficit fell to USD19.4bn in Sep-23...



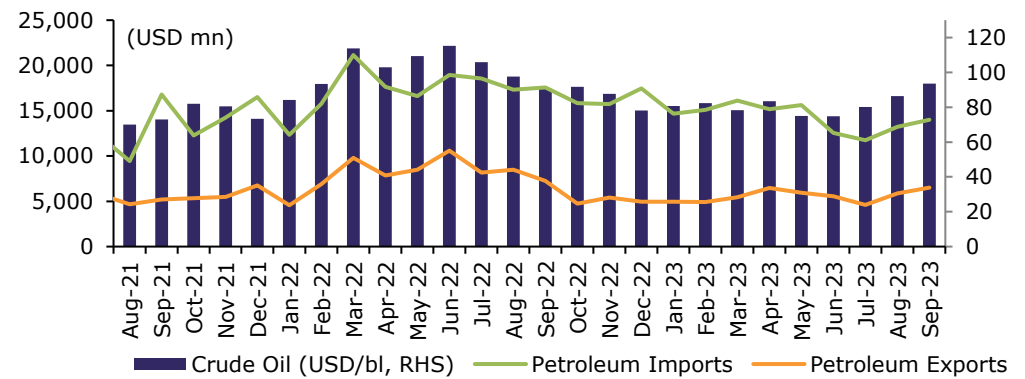
Source: Ministry of Commerce, Emkay Research

Exhibit 2: ...with imports falling faster than exports



Source: Ministry of Commerce, Emkay Research

Exhibit 3: Oil deficit increased to USD7.5bn, as crude oil prices averaged at USD94/bl



Source: Ministry of Commerce, CMIE, Emkay Research

Exhibit 4: Component-wise trends in merchandise trade

	2 Yr CAGR	YoY%						
		H1FY24	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23
Exports	1.0	(8.8)	(2.6)	3.9	(10.1)	(18.8)	(10.3)	(12.7)
Oil	11.8	(31.2)	(10.6)	(30.6)	(43.7)	(47.5)	(29.9)	(17.6)
Non-oil	(1.1)	(2.5)	22.6	14.1	(1.0)	(9.2)	(4.9)	(11.5)
Imports	(2.2)	(12.2)	(15.0)	(2.8)	(17.0)	(17.5)	(6.7)	(13.6)
Oil	(8.7)	(21.4)	(20.3)	(15.1)	(36.6)	(33.8)	(6.0)	(14.0)
Gold	(10.4)	9.8	6.9	38.8	47.7	82.4	(38.7)	(41.5)
Non-oil, Non Gold	7.6	(8.3)	(5.0)	(1.2)	(12.1)	(16.6)	(2.0)	(12.2)
Capital goods	4.1	0.8	(22.8)	13.9	8.2	(1.7)	10.7	3.1
Electronic Goods	8.3	9.4	13.3	8.3	14.9	8.5	18.1	(5.7)
Trade balance (USD bn)		(17.7)	(19.4)	(21.7)	(18.5)	(18.8)	(22.0)	(15.5)

Source: Ministry of Commerce, Emkay Research

Exhibit 5: Major commodity groups contributing to trade in September-23

	Commodity	Value (USD mn)	Share of total (%)	2Y CAGR (%)	YoY (%) Sep'23
Export	Engineering Goods	8,911	26	(2.7)	6.8
	Petroleum Products	6,496	19	11.8	(10.6)
	Gems and Jewellery	3,186	9	(0.8)	(16.0)
	Drugs and pharma	2,394	7	7.9	9.0
	Organic and inorganic chemicals	2,126	6	(5.4)	(15.3)
Import	Petroleum, Crude & Products	13,992	26	(8.7)	(20.3)
	Electronic Goods	8,077	15	8.3	13.3
	Gold	4,111	8	(10.4)	6.9
	Electrical and non-electrical machinery	3,858	7	9.9	3.9
	Coal, coke and briquettes	2,346	4	3.5	(33.4)

Source: Ministry of Commerce, Emkay Research

Exhibit 6: CAD/GDP to ease to 1.4% in FY24E

(US\$bn)	FY19	FY20	FY21	FY22	FY23	FY24E
Current account	(57.3)	(24.7)	23.9	(38.8)	(67)	(53)
CAD/GDP (%)	(2.1)	(0.8)	0.9	(1.2)	(2.0)	(1.4)
Trade balance	(180)	(158)	(102)	(189)	(265)	(247)
Trade balance/GDP (%)	(6.7)	(5.5)	(3.8)	(6.1)	(7.8)	(6.7)
- Exports	337	320	296	429	456	428
- oil exports	47	41	26	67	75	69
- non-oil exports	291	279	270	362	381	359
- Imports	518	478	398	619	721	675
- oil imports	141	131	83	162	209	201
- non-oil imports	377	347	316	457	512	466
Net invisibles	123	133	126	151	198	188
- Services	82	85	89	108	143	152
- software	78	85	90	110	131	140
- non-software	4	0	(1)	(2)	12	12
- Transfers	70	75	73	80	101	86
- Net Income	(29)	(27)	(36)	(37)	(46)	(50)

Source: CEIC, Emkay Research estimates

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