

Merchandise Trade

Supply chains taking shape in anticipation of trade deal

India's trade imbalances narrowed to normalised levels of USD 21.9Bn in May-25, mainly due to the sluggishness in imports while exports remained flat sequentially. Overall trade activity was dragged by the weak trading activity in oil. While the resilience in Non-Oil Non-Gold imports signals favourable domestic demand environment. Amidst the policy flip flops in the US and the uncertainty around the trade deal, global supply chains have started taking shape. Share of US in India's trade activity has improved at the cost of China, Russia and Saudi Arabia. We believe that the trade deal with the US would be the precursor for optimal functioning of global supply chains. As of now we continue to expect India's CAD to deteriorate to 1.1% of GDP in FY26.

- **Trade balance improved:** India's merchandise trade deficit narrowed to normalised levels of USD 21.9Bn in May-25 vs USD 26.4Bn in the previous month. Exports continue to remain weak (-2.2% YoY, 0.6% MoM) while the steep sequential decline in imports (-1.7% YoY, -6.6% MoM) cushioned the trade balance to normalised levels. Our assessment of India's trade activity during Jan-Apr'25, reveals that share of US in India's exports continues to rise while share of Netherlands, China and Saudi Arabia declined (Ex 2). Even in case of imports, share of China declined along with Russia, Saudi Arabia and Iraq while share of US and UAE improved (Ex 3). We believe that clarity on trade deal would decide the new trading arrangements across the globe, impacting the supply chains and the trade balances. As of now, we are building in deterioration in India's Current Account Deficit to 1.1% of GDP for FY26.
- **Oil trade drags; Core imports remained resilient:** At USD 38.7Bn, India's exports inched up marginally (0.6% MoM), indicating the sluggishness in the global demand environment. Exports were majorly dragged by sharp sequential decline in petroleum exports (23.5% MoM), which forms 1/5th of total exports. Pharma exports remained weak (-0.4% MoM), while Electronic goods (23.8% MoM), Chemicals (18.4% MoM) and Engineering Goods (3.9% MoM) gathered momentum. The drag on the imports side was led by Petroleum and Crude oil imports, which recorded a sharp sequential decline of 28.8% MoM. There is a clear shift in the sourcing of crude oil by India, while the share of Russia has been consistently declining from 44% in Sep-24 to ~28% currently, the share of US more than doubled to 12.9% in Apr-25 (Ex 5). Ex 6 shows that the price of crude oil follows demand as it has moved in tandem with the volume of imports. Amongst the top five categories, imports of machinery (7.3% MoM) and chemicals (4.5% MoM), recorded decent growth.
- **Services surplus moderate to USD 15.3Bn in May-25:** Preliminary figures indicate that India's Services surplus moderated to USD 15.3Bn in May-25 vs USD 15.9Bn in the previous month. Services exports of USD 32.4bn declined -1.4% MoM while imports of USD 17.1bn (1.4% MoM) gained momentum. We are building-in growth of 12% in services surplus in FY26 to USD 212Bn, which would cushion the overall trade balance in the upcoming fiscal as well.
- **Expect CAD at 1.1% of GDP in FY26:** Amidst the policy flip flops in the US and the recent agreement with China on the framework of the deal, there have been conflicting statements on the deadline (9th July). While the US Treasury secretary signalled on shifting the deadline further, President Trump indicated on setting unilateral tariff rates, which is fuelling uncertainty. Media reports indicate that the trade deal with India is in final stages and is likely to be concluded within the set deadline, wherein India is seeking full exemption from the reciprocal tariff (26%). While the trade deal with European Union is likely to be concluded by the end of current calendar year. During the recent escalation in geo-political tensions between Iran and Israel, the INR faced depreciation pressure (0.8%), as FII flows revert (-3Bn) and Crude oil price spiked 11% in a week. We believe that the global uncertainty would only be laid to rest with the finalisation of trade deal, post which the supply chains would function optimally. As of now, we continue to expect deterioration in India's CAD to 1.1% of GDP in FY26.



Hitesh Suvarna

hitesh.suvarna@jmfl.com | Tel: (91 22) 66303351

Venkatesh Balasubramaniam

venkatesh.balasubramaniam@jmfl.com | Tel: (91 22) 66303081

Shalin Choksy

shalin.choksy@jmfl.com | Tel: (91 22) 66303380

Key Highlights

- Merchandise trade deficit narrowed to USD 21.9 Bn in May-25.
- Imports remained weak while exports remained flat sequentially
- NoNG imports signal resilient domestic demand
- The share of US in India's trade improved at the cost of China, Russia and Saudi Arabia
- We expect CAD to deteriorate to 1.1% of GDP in FY26.

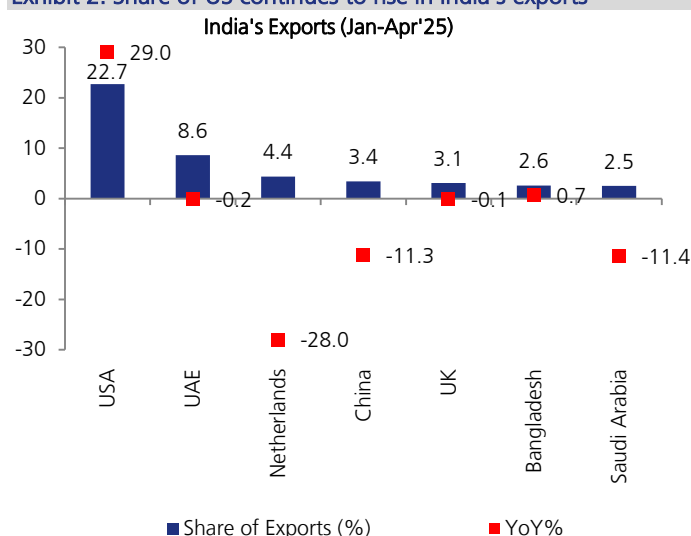
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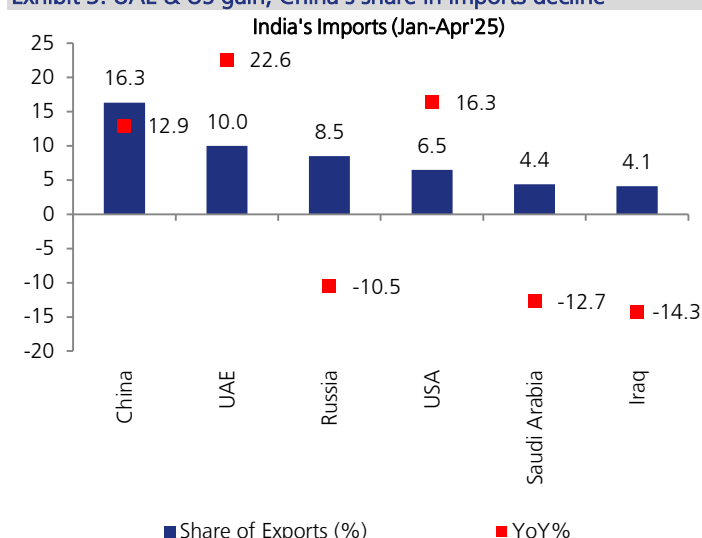
Exhibit 1. Major commodities contributing to trade in May-25

USD Mn	Commodity	Value	Share of Total (%)	YoY %	5 Yr CAGR	MoM %
Export	Engineering Goods	9,887	25.5	(0.8)	11.8	3.9
	Petroleum Products	5,644	14.6	(30.3)	28.2	(23.5)
	Electronic Goods	4,569	11.8	54.1	55.8	23.8
	Chemicals	2,683	6.9	16.0	8.1	18.4
	Drugs and Pharma	2,476	6.4	7.4	4.6	(0.4)
Import	Petroleum, Crude & Products	14,751	24.3	(26.1)	33.4	(28.8)
	Electronic Goods	9,092	15.0	27.2	25.8	(1.7)
	Machinery, electrical & non-electrical	5,010	8.3	20.8	17.5	7.3
	Chemicals	3,434	5.7	0.5	12.0	4.5
	Coal, Coke and Briquettes	2,660	4.4	(19.4)	15.2	(1.9)

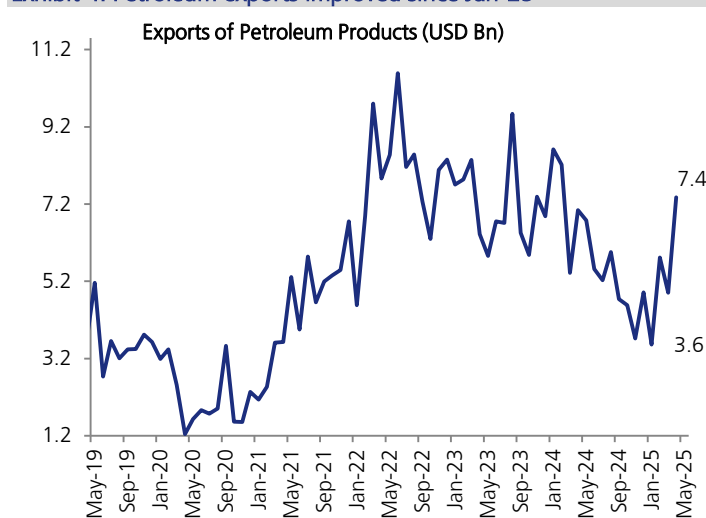
Source: Ministry of Commerce, JM Financial

Exhibit 2. Share of US continues to rise in India's exports

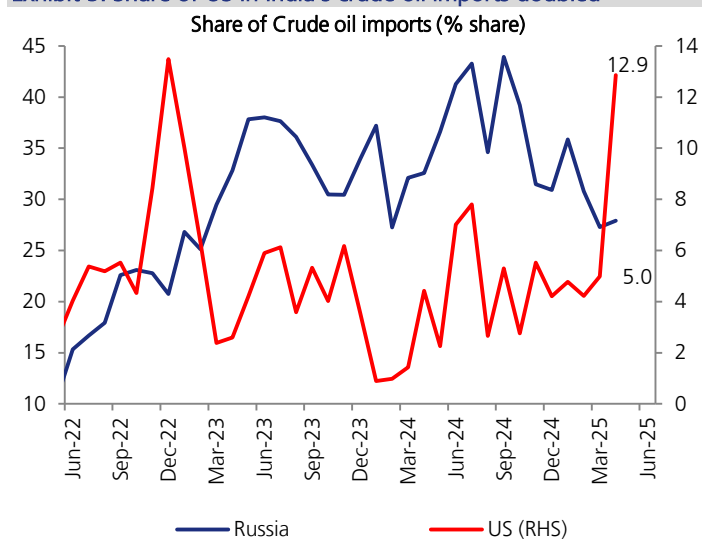
Source: Ministry of Commerce, JM Financial

Exhibit 3. UAE & US gain; China's share in imports decline

Source: Ministry of Commerce, JM Financial

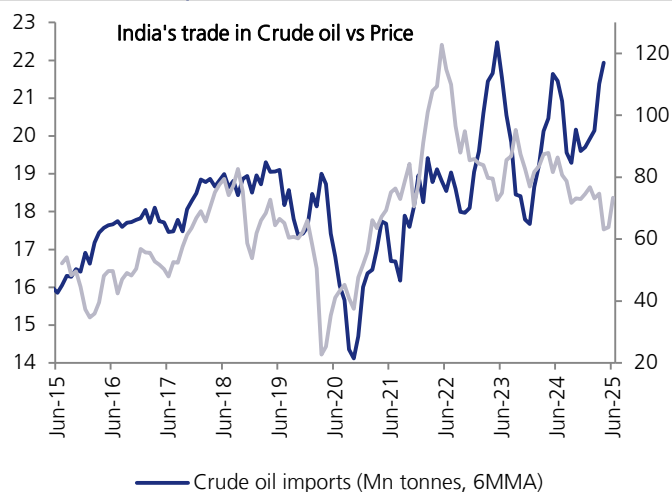
Exhibit 4. Petroleum exports improved since Jan-25

Source: Ministry of Commerce, JM Financial

Exhibit 5. Share of US in India's crude oil imports doubled

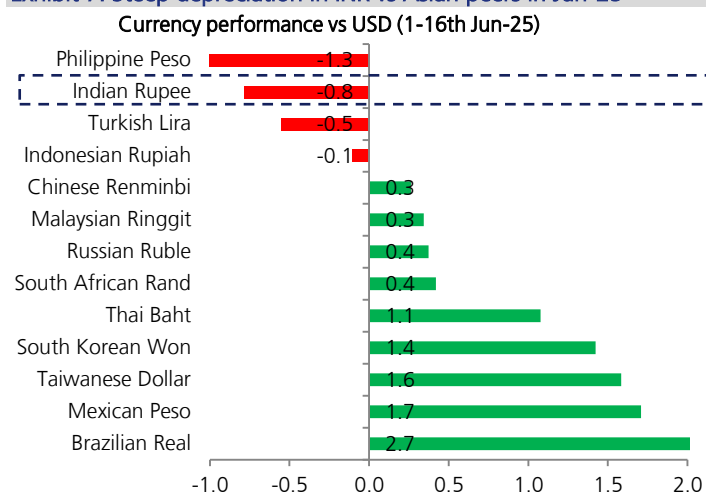
Source: CMIE, JM Financial

Exhibit 6. Crude oil price moves in tandem with demand



Source: CMIE, Bloomberg, JM Financial

Exhibit 7. Steep depreciation in INR vs Asian peers in Jun-25



Source: Bloomberg, JM Financial

Exhibit 8. Core imports remained resilient in May-25

	YoY%												
	May-25	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24
Exports	(2.2)	9.0	0.7	(11.1)	(2.6)	(1.5)	(5.3)	16.6	(0.3)	(9.9)	0.6	2.4	13.3
Oil	(30.3)	4.7	(9.5)	(29.2)	(58.7)	(28.6)	(49.7)	(22.1)	(26.7)	(37.6)	(22.2)	(18.3)	38.3
Non-oil	5.1	10.1	2.2	(6.6)	14.2	4.4	7.1	24.8	5.8	(0.8)	6.1	7.5	8.2
Imports	(1.7)	19.1	11.4	(16.3)	10.3	2.3	16.1	1.9	7.8	10.0	11.2	4.6	7.3
Oil	(26.2)	25.6	16.3	(29.6)	(13.4)	(9.0)	6.5	17.0	6.5	(25.6)	22.7	19.7	28.3
Gold	(12.6)	4.9	192.1	(62.0)	40.8	55.4	331.4	(1.4)	6.9	103.7	(10.7)	(38.7)	(21.0)
Non-oil, Non Gold	11.7	17.3	2.2	(3.0)	18.8	2.5	(9.6)	(3.5)	8.4	12.8	9.6	5.4	1.5
Capital goods	2.9	14.2	(6.6)	(2.8)	15.8	7.6	6.0	1.1	12.5	8.4	(0.8)	6.7	7.4
Electronic Goods	27.2	31.2	25.0	9.1	17.8	9.6	17.4	6.8	4.9	12.8	11.5	15.9	6.6
Trade balance (USD bn)	(21.9)	(26.4)	(21.5)	(14.1)	(23.1)	(20.7)	(32.0)	(26.1)	(24.4)	(34.0)	(24.8)	(20.8)	(22.1)

Source: Ministry of Commerce, JM Financial

Exhibit 9. We expect deterioration in CAD to 1.1% of GDP in FY26

USD Bn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Balance Of Payments	59.5	87.6	47.1	(0.9)	63.0	(14.3)	6.2
% GDP	2.1	3.3	1.5	(0.0)	1.8	(0.4)	0.1
Current account	(24.7)	23.9	(38.8)	(58.0)	(23.3)	(25.8)	(45.8)
CAD % GDP	(0.9)	0.9	(1.2)	(1.7)	(0.7)	(0.7)	(1.1)
Merchandise trade	(158)	(102)	(189)	(265)	(242)	(283)	(298)
Oil imports	131	83	162	209	180	186	185
Invisibles	133	126	151	207	219	257	252
Services	85	89	108	152	163	189	212
Transfers	75	73	80	101	106	118	90
Income	(27)	(36)	(37)	(46)	(50)	(50)	(50)
Capital account	83	63.7	85.9	57.1	86.3	11.5	52.0
% GDP	2.9	2.4	2.7	1.7	2.4	0.3	1.2
Foreign investment	44	80	22	23	54	4	20
Foreign direct investment	43	44	39	28	10	1	15
Portfolio investment	1	36	(17)	(5)	44	3	5
Loans	26	7	34	8	2	28	10
Banking capital	(5)	(21)	7	21	41	(8)	15
Other capital	18	(2)	24	5	(10)	(12)	7
Crude price (USD/bl)	60.9	44.7	80.0	93.4	82.5	78.6	75.0

Source: RBI, Ministry of Commerce, JM Financial

APPENDIX I

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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