

Merchandise Trade

Weak imports aid trade balance; Disruption in Red sea adds upside risk

Seasonally strong month ensured strong sequential gains in trade activity in Dec'23. Imports were comparatively weaker despite seasonality, which aided narrowing in trade deficit to USD 19.8bn. Weakness in imports was mainly due to the price-led fall in crude oil imports, as crude prices declined 7.3% sequentially. The impact of the disruption in the Red sea is likely to reflect in the trade figures of Jan'24. India's trade with Europe and Africa is substantial as exports form ~35% while imports form ~26% of India's trade basket. Amidst risk of deterioration, we retain our CAD estimate at 1.4% of GDP for FY24, as the monthly run rate of trade balance is ~USD 20bn.

- **Strong exports aided trade balance:** Merchandise trade deficit narrowed further to USD 19.8bn in Dec'23 (USD 20.6bn in Nov'23) and was marginally lower than consensus estimates of USD 20bn. Sharp sequential improvement in exports (13.5% MoM) vs imports (6.9% MoM) aided in containing the trade deficit within the USD 20bn mark.
- **Imports decline in seasonally strong month:** December has historically been a seasonally strong month, but exports in Dec'23 were robust at USD38.45bn with strong sequential gains and a marginal uptick of 1% YoY. Most notable contribution came from Engineering goods (10.2% YoY, 28% MoM), Gems and Jewellery (14.1% YoY, 3% MoM) and Electronic goods (9.3% YoY, 16% MoM) while exports of petroleum products (-17.6% YoY, -8% MoM) dragged overall exports. Imports were comparatively weaker with a 4.9% decline on annual basis, but seasonality ensured robust sequential gains of 6.9% MoM. This decline can be mainly attributable to price-led fall in imports of crude oil (22.8% YoY, 0% MoM), which has the largest weight in the imports basket (wt. 27%). Crude oil prices sequentially declined 7.3% in Dec'23. Imports of electronic goods were robust (48.5% YoY, 45% MoM) while gold imports continued to decline post the festive season (-12% MoM). Although on FYTD basis, overall trade activity remained weak, there is a marginal improvement in trade deficit (Ex 7).
- **Disruption in Red sea likely to impact trade activity:** Disruption in the Red sea has started to impact trade activity, as altered shipping routes are raising transportation costs. Freight rates have doubled in last fortnight to ~USD 3000/40ft container, moreover altered route through the Cape of Good Hope means a delay of 14-20 days. This has led to exporters either avoiding exports to Europe and Africa and looking for other markets or bearing the additional costs. India's annual exports to Europe (USD 102bn) and Africa (USD 51bn) forms ~35% of exports basket while imports constitute 26% of India's imports basket. Initial estimates indicate that exporters are expected to avoid/differ 25% of the exports through the Red sea.
- **Weakness in Services trade:** Preliminary estimates indicate weakness in overall services trade, the fall in services imports (-16% YoY, -3.1% MoM) was steeper vs services exports (-10.3% YoY, -0.7% MoM). This aided services trade balance to improve marginally in Dec'23 (USD 14.6bn vs US 14.4bn prior). However, it is pertinent to note that preliminary estimates undergo significant revisions.
- **Amidst risk of deterioration, we maintain our CAD estimate at 1.4% of GDP:** The full impact of the recent disruption in the Red sea is likely to be reflected in the trade numbers of Jan'24. India's trade with Europe and Africa is substantial as exports form ~35% while imports form ~26% of India's trade basket. It is events like these which would further impact the already vulnerable global trade activity. But it would be premature to gauge the likely impact on the trade balance. Hence we retain our CAD expectation at 1.4% of GDP for FY24, assuming a monthly trade deficit run rate of USD 20bn will be maintained.

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Key Highlights:

- Trade deficit narrowed below USD 20bn mark.
- Sequential strength in trade activity due to seasonality; Imports weak despite seasonality.
- Fall in imports due to price-led fall in imports of crude oil.
- Impact of disruption in Red sea likely to reflect in trade activity in Jan'24
- We retain our CAD estimate at 1.4% of GDP for FY24.

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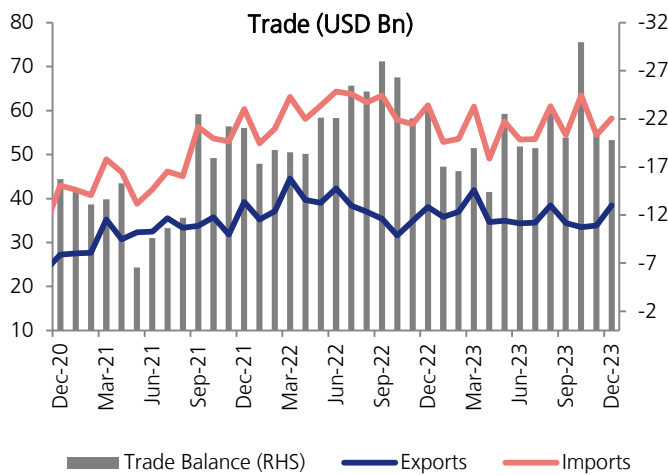
Please see Appendix I at the end of this report for Important Disclosures and

Exhibit 1. Major commodities contributing to trade in Dec'23

USD Mn	Commodity	Value	Share of Total (%)	YoY %	4 Yr CAGR
Export	Engineering Goods	10,041	29.6	10.2	9.3
	Petroleum Products	6,879	20.3	(17.6)	17.3
	Gems and Jewellery	2,899	8.6	14.1	4.7
	Electronic Goods	2,624	7.7	9.3	7.2
	Chemicals	2,569	7.6	(1.0)	8.1
Import	Petroleum, Crude & Products	14,942	27.4	(22.8)	8.7
	Electronic Goods	9,403	17.3	48.5	22.6
	Machinery, electrical & non-electrical	4,214	7.7	1.8	7.7
	Coal, Coke & Briquettes	3,455	6.3	4.8	18.4
	Gold	3,026	5.6	156.5	5.2

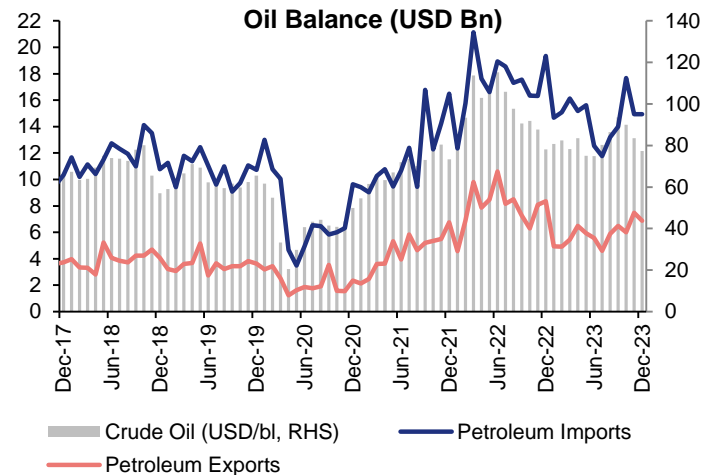
Source: Ministry of Commerce, JM Financial

Exhibit 2. Trade deficit hovers in the ~USD 20bn range



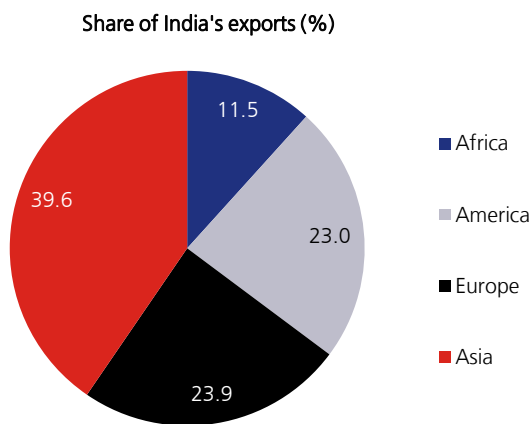
Source: Ministry of Commerce, JM Financial

Exhibit 3. Easing crude prices aided Oil deficit



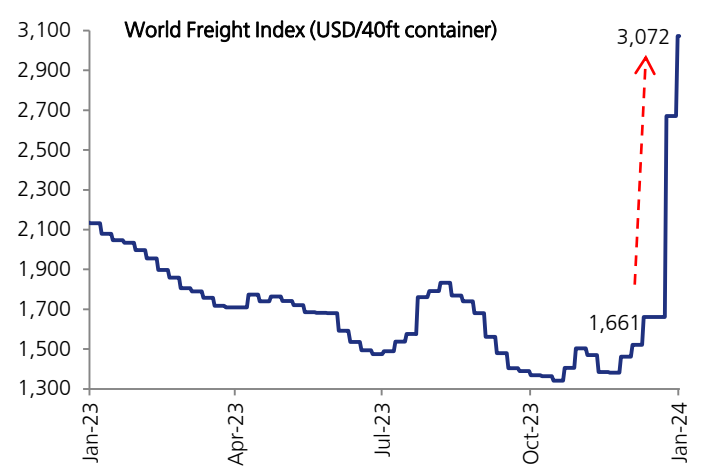
Source: Ministry of Commerce, JM Financial

Exhibit 4. ~35% exports concentrated in Europe and Africa



Source: Ministry of Commerce, JM Financial

Exhibit 5. Freight rates have doubled in a fortnight



Source: Bloomberg, JM Financial

Exhibit 6. Falling oil imports aiding India's trade balance

	YoY%												
	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22
Exports	1.0	(2.9)	6.0	(2.7)	3.8	(10.0)	(18.8)	(10.4)	(12.7)	(5.9)	(0.4)	1.6	(3.0)
Oil	(17.6)	(7.4)	(4.6)	(10.6)	(30.6)	(43.7)	(47.5)	(29.9)	(17.6)	(44.6)	(28.8)	8.0	23.6
Non-oil	6.2	(1.5)	8.6	(0.7)	14.0	(0.9)	(9.2)	(4.9)	(11.5)	5.1	6.1	0.7	(8.6)
Imports	(4.9)	(4.3)	9.6	(14.0)	(1.4)	(16.1)	(16.9)	(6.0)	(15.5)	(3.4)	(4.1)	0.5	1.5
Oil	(22.8)	(8.5)	(1.2)	(20.3)	(13.5)	(36.4)	(33.8)	(6.3)	(22.3)	(14.8)	7.2	28.5	17.3
Gold	156.5	6.2	95.4	6.9	38.8	47.7	82.4	(38.7)	(41.5)	216.8	(44.9)	(70.8)	(75.0)
Non-oil, Non Gold	(1.0)	(3.4)	5.8	(13.3)	0.2	(10.9)	(15.8)	(0.7)	(11.2)	(3.2)	(3.7)	(4.2)	4.0
Capital goods	(26.7)	(4.6)	(5.5)	(22.8)	13.9	8.2	(1.7)	10.7	3.1	9.6	18.0	5.4	29.3
Electronic Goods	48.5	10.1	26.2	13.3	8.3	14.9	8.5	18.1	(5.7)	(16.8)	(11.1)	(18.5)	(2.0)
Trade balance (USD bn)	(19.8)	(20.6)	(30.0)	(20.1)	(22.6)	(19.0)	(19.1)	(22.5)	(14.4)	(19.0)	(16.6)	(17.0)	(23.1)

Source: Ministry of Commerce, JM Financial

Exhibit 7. Weakness in Core imports on FYTD basis

(Apr-Dec)	USD Bn				YoY%		
	FY21	FY22	FY23	FY24	FY22	FY23	FY24
Exports	201	305	336	317	51	10	(6)
Non-Oil	184	259	263	230	41	1	(12)
Non-Oil Non Gold (NoNG)	167	230	234	209	38	2	(11)
Imports	263	441	549	505	68	24	(8)
Oil	54	113	159	129	109	41	(19)
Non-Oil Non Gold (NoNG)	192	291	362	341	52	24	(6)
Trade Deficit	(61)	(136)	(212)	(188)	122	56	(11)
NoNG Deficit	(25)	(61)	(128)	(132)	145	110	3

Source: Ministry of Commerce, JM Financial

Exhibit 8. We CAD to average ~1.4% of GDP during FY24 & FY25, amidst upside risk due to weak exports

USD Bn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Balance Of Payments	43.6	(3.3)	59.5	87.6	47.1	(6.7)	32.1	36.1
% GDP	1.6	(0.1)	2.1	3.3	1.5	(0.2)	0.9	0.9
Current account	(48.7)	(57.3)	(24.7)	23.9	(38.8)	(63.8)	(53.9)	(57.9)
CAD % GDP	(1.8)	(2.1)	(0.9)	0.9	(1.2)	(1.9)	(1.4)	(1.4)
Merchandise trade	(160)	(180)	(158)	(102)	(189)	(265)	(240)	(252)
Oil imports	109	141	131	83	162	209	180	170
Invisibles	111	123	133	126	151	201	186	194
Services	78	82	85	89	108	146	140	150
Transfers	62	70	75	73	80	101	92	90
Income	(29)	(29)	(27)	(36)	(37)	(46)	(46)	(46)
Capital account	91	54	83	64	86	57	86	94
% GDP	3.4	2.0	2.9	2.4	2.7	1.7	2.3	2.3
Foreign investment	52	30	44	80	22	23	55	61
Foreign direct investment	30	31	43	44	39	28	35	36
Portfolio investment	22	(1)	1	36	(17)	(5)	20	25
Loans	17	16	26	7	34	8	15	15
Banking capital	16	7	(5)	(21)	7	21	10	12
Other capital	6	1	18	(2)	24	5	6	6
Crude price (USD/bbl)	57.6	70.2	60.9	44.7	80.0	93.4	80.0	75.0

Source: CMIE, JM Financial estimates

APPENDIX I

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