

Trade Deficit

Renewed export momentum drives lower deficit

Economics

External sector

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The moderation in trade deficit for December to a six-month low (USD19.8bn) was due to exports, especially non-oil exports, rising more than imports on the back of better global demand. Services surplus increased to a 12-month high, supporting the overall trade balance. We revise FY24E CAD/GDP to 1.2%, implying CAD at <USD50bn and trade deficit/GDP at ~6.9%, due to resilient services and non-oil exports, along with lower expected commodity prices in Q4, while monitoring the possible impact of a prolonged Red Sea crisis.

Goods trade deficit moderates further, with exports growing more than imports

Merchandise trade deficit declined to a six-month low of USD19.8bn in December, from USD20.6bn in November. The reduction in deficit was led by a faster sequential rise in exports (USD38.5bn, 14% MoM) than imports (USD58.3bn, 7% MoM). The non-oil, non-gold (NONG) deficit also fell, while the oil deficit rose due to a decline in petroleum exports, with crude prices ~7% lower during the month, on average. On a YoY basis, exports were 1% higher, while imports were 4.9% lower, with core imports lower by 1%. For 9MFY24, exports and imports are lower 5.7% and 7.9%, respectively, while core exports have risen 1.6%, with core imports declining 5.8%.

Non-oil exports showing encouraging signs

A sharp sequential improvement in exports for December is reflective of the higher external demand due to the festive season. This was also seen across Asia, where exports generally fared well in November and December. Encouragingly, excluding oil, Indian exports have been at virtually the same level in 9MFY24 as in the previous year, reflecting better global demand. Higher exports in December have been led by engineering goods (28% MoM), gems & jewelry (3% MoM), electronic goods (16% MoM), and organic & inorganic chemicals (24% MoM), while shipments of petroleum products fell 8%. Gold imports fell further during the month (-12% MoM) despite higher prices, while petroleum imports were virtually unchanged. Other major import categories such as engineering goods (45% MoM), electrical & non-electrical machinery (6% MoM), and coal (3% MoM) all rose sequentially. 9MFY24 has seen higher exports of electronic goods (22% YoY), and drugs & pharma products (8% YoY), among major categories, while engineering goods shipments are flat, and that of petroleum (-25% YoY) and gems & jewelry (-16% YoY) are lower.

Services trade surplus rises to a 12-month high

Separately, services trade surplus widened to USD14.6bn in December (Nov-23: USD14.4bn), continuing to bolster the overall trade balance. This is the highest services trade surplus since December 2022. Sequentially, services exports declined 0.7% MoM, while services imports declined 3.1%; FYTD24 services surplus is up 13.9%. Software exports have been helped by resilient growth in the USA so far, but slowing global growth, especially in DMs, may weigh on demand for services in Q4FY24.

We revise down FY24E CAD/GDP to 1.2%

While H1FY24 CAD/GDP is at ~1.0%, the record October deficit has meant that Q3FY24 will likely see widening in CAD/GDP (~1.7%) despite the subsequent declines in the deficit since then. That said, the ongoing moderation in oil prices is encouraging, while core imports are likely to continue declining on account of moderating demand and lower commodity prices. Additionally, non-oil exports have been resilient so far, while services exports have been much better than expected. Q4 of the fiscal year is also generally better on a seasonal basis for trade deficits. However, we are monitoring the impact of a prolonged Red Sea crisis on import costs in the form of higher freight costs, insurance premiums, and longer transit times during the quarter. Nonetheless, given the current dynamics, we revise FY24E CAD/GDP by 20bps to 1.2%, implying CAD at under USD50bn and trade deficit/GDP at 6.9%.

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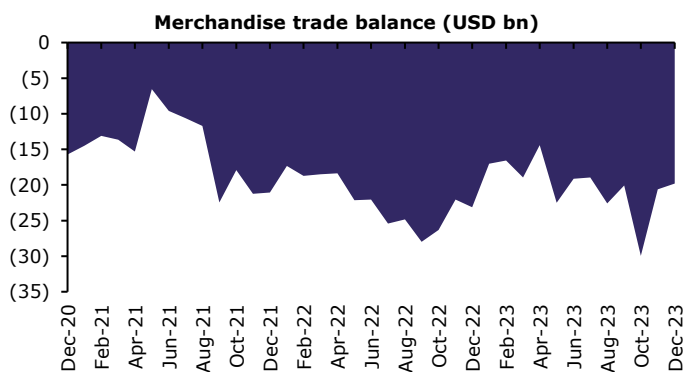
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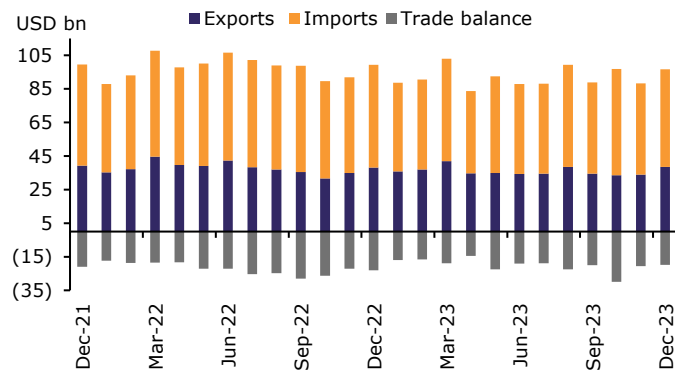
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Key highlights:

- **December trade deficit falls to USD19.8bn**
- **Imports rose 7% MoM while exports rose 14%**
- **Services surplus rises to a 12-month high of USD14.6bn**
- **We revise down FY24E CAD/GDP to 1.2%**

Exhibit 1: Nov-23 trade deficit moderates to USD19.8bn...

Source: Ministry of Commerce, Emkay Research

Exhibit 2: ...as exports rise faster than imports

Source: Ministry of Commerce, Emkay Research

Exhibit 3: Component-wise trends in merchandise trade

| | 2 Yr CAGR | YoY% | | | | | | |
|-------------------------------|-----------|--------|--------|--------|--------|--------|--------|--------|
| | | Dec-23 | Nov-23 | Oct-23 | Sep-23 | Aug-23 | Jul-23 | Jun-23 |
| Exports | (1.0) | 1.0 | (2.9) | 6.0 | (2.7) | 3.8 | (10.0) | (18.8) |
| Oil | 0.0 | (17.6) | (7.4) | (4.6) | (10.6) | (30.6) | (43.7) | (47.5) |
| Non-oil | 0.0 | 29.3 | 26.4 | 2.8 | 1.1 | 14.0 | (0.9) | (9.2) |
| Imports | (1.7) | (4.9) | (4.3) | 9.6 | (14.0) | (1.4) | (16.1) | (16.9) |
| Oil | (4.8) | (22.8) | (8.5) | (1.2) | (20.3) | (13.5) | (36.4) | (33.8) |
| Gold | (20.0) | 156.5 | 6.2 | 95.4 | 6.9 | 38.8 | 47.7 | 82.4 |
| Non-oil non-gold | 1.5 | (1.0) | (3.4) | 5.8 | (13.3) | 0.2 | (10.9) | (15.8) |
| Capital goods | (2.6) | (26.7) | (4.6) | (5.5) | (22.8) | 13.9 | 8.2 | (1.7) |
| Electronic Goods | 20.6 | 48.5 | 10.1 | 26.2 | 13.3 | 8.3 | 14.9 | 8.5 |
| Trade balance (USD bn) | | (19.8) | (20.6) | (30.0) | (20.1) | (22.6) | (19.0) | (19.1) |

Source: Ministry of Commerce, Emkay Research

Exhibit 4: Major commodity groups contributing to trade in December-23

| Commodity | Value (USD mn) | Share of total (%) | MoM (%) | YoY (%) |
|---|----------------|--------------------|---------|---------|
| | | | Dec'23 | Dec'23 |
| Export | | | | |
| Engineering Goods | 10,041 | 26 | 27.9 | 10.2 |
| Petroleum Products | 6,879 | 18 | (8.1) | (17.6) |
| Gems and Jewellery | 2,899 | 8 | 3.4 | 14.1 |
| Electronic Goods | 2,624 | 7 | 16.4 | 14.4 |
| Organic & inorganic chemicals | 2,569 | 7 | 23.9 | (1.0) |
| Petroleum, Crude & Products | 14,942 | 26 | 0.0 | (22.8) |
| Import | | | | |
| Electronic Goods | 9,403 | 16 | 44.8 | 48.5 |
| Electrical and non-electrical machinery | 4,214 | 7 | 5.9 | 1.8 |
| Coal, coke and briquettes | 3,455 | 6 | 2.5 | 4.8 |
| Gold | 3,026 | 5 | (12.2) | 156.5 |

Source: Ministry of Commerce, Emkay Research

Exhibit 5: We revise down FY24E CAD/GDP to 1.2%

| | <i>Oil @70</i> | <i>Oil @61.50</i> | <i>Oil @45.8</i> | <i>Oil @79.8</i> | <i>Oil @95</i> | <i>Oil @85</i> |
|------------------------------|----------------|-------------------|------------------|------------------|----------------|----------------|
| (US\$bn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E |
| Current account | (57.3) | (24.7) | 23.9 | (38.8) | (67) | (45) |
| CAD/GDP (%) | (2.1) | (0.8) | 0.9 | (1.2) | (2.0) | (1.2) |
| Trade balance | (180.3) | (157.5) | (102.2) | (189.5) | (265.3) | (252.6) |
| Trade balance/GDP (%) | (6.7) | (5.5) | (3.8) | (6.1) | (7.8) | (6.9) |
| - Exports | 337 | 320 | 296 | 429 | 456 | 425 |
| - oil exports | 47 | 41 | 26 | 67 | 97 | 77 |
| - non-oil exports | 291 | 279 | 270 | 362 | 359 | 348 |
| - Imports | 518 | 478 | 398 | 619 | 721 | 678 |
| - oil imports | 141 | 131 | 83 | 162 | 209 | 187 |
| - non-oil imports | 377 | 347 | 316 | 457 | 512 | 485 |
| Net invisibles | 123 | 133 | 126 | 151 | 198 | 202 |
| - Services | 82 | 85 | 89 | 108 | 143 | 161 |
| - software | 78 | 85 | 90 | 110 | 131 | 146 |
| - non-software | 4 | 0 | (1) | (2) | 12 | 15 |
| - Transfers | 70 | 75 | 73 | 80 | 101 | 91 |
| - Net Income | (29) | (27) | (36) | (37) | (46) | (50) |

Source: CEIC, Emkay Research estimates

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