Trade Balance

Oil and festive demand drive deficit higher; outlook improving

Goods trade deficit rose to a one-year high of ~$40bn in Oct-26 (Sep-26: ~$30bn), as imports rose 20% mom while exports rose 11% mom. The increase in imports was led by oil (24% mom) and gold (203% mom), while growth in coal and fertilizer imports was also significant. Oil exports increased ($9bn; 43% mom), as did electronics exports ($7bn; 25% mom). The deficit is likely to fall in November on account of lower oil and gold imports. Net services exports rose to $19.8bn, while the Sep-26 surplus was significantly revised higher. We maintain FY27E CAD/GDP at 1.7% but note downside potential if oil prices remain lower, with CAD/GDP dipping to 1.4% at $90/bbl average Brent. There is also emerging upside to our FY27 BOP estimates, with large net FPI inflows since mid-Oct, along with significant potential FDI inflows via the IDBI stake sale.

Goods deficit rises to one-year high due to oil and gold

Goods trade deficit rose to a one-year high of $39.9bn in Oct-26 (vs $30.2bn in Sep-26), as imports rose 20% mom (+16% yoy) to $89.3bn, while exports rose 11% mom (+45% yoy) to $49.5bn. Oil imports rose 24% mom to $22.8bn, likely reflecting the delivery of cargoes contracted in Sep-26, when average oil prices had risen to ~$100/bbl. Notably, FY27TD crude oil import volumes (till Sep) are now ~2% higher than FY26TD. Product import volumes, however, remain materially lower (-48%), leading to overall oil import volumes being ~7% lower for the year so far. Oil exports rose ~43% mom to $8.9bn, while volumes (till Sep) were ~16% lower than last year. Gold imports rose ~206% mom to $5.5bn, while silver imports were up ~193% mom to $2bn on festive-season demand. For 7MFY27, total goods exports stood at $309bn (22% yoy), with imports at $527bn (16% yoy), leading to a trade deficit of $217bn (vs $200bn in 7MFY26). FY27TD, exports to China rose 36% yoy, while exports to the US increased 14%.

Capital goods deficit also rises; export growth trend stays healthy

Core (non-oil, non-precious metals) exports rose 7% mom (+33% yoy) to $37.3bn, while core imports rose 10% mom (+33% yoy) to $59.1bn. As a result, core deficit increased to $22bn (vs $19bn previously). Growth was driven by higher coal (22% mom) and fertilizer (33% mom) imports, while capital goods import growth slowed (4% mom vs 7% prior). This was driven by a sequential fall in electronics imports (-4% mom, 50% yoy) to $14bn, while other categories continued to see strong momentum (transport equipment: 18% mom; machinery: 11% mom). On the export front, electronics exports rose 25% mom (+63% yoy) to $7bn, while engineering goods exports rose 5% mom (+36% yoy) to $13bn. For 7MFY27, core goods exports stayed strong at $239bn (+18% yoy); however, with core imports at $361bn (21% yoy), the core deficit stood at $122bn (vs $96bn in 7MFY26). Within this, the electronics deficit alone stood at $57bn (vs $39bn in 7MFY26).

Services surplus rises in Oct and heavily revised up for Sep; but growth plateauing

Services surplus rose to $19.8bn in Oct-26 (3% mom, 13% yoy); however, Sep-26 saw a large upward revision to $19.2bn vs $16.9bn earlier. As a result, provisional net services exports for 7MFY27 stood at $125bn, up 7% yoy, with gross services exports ($260bn) rising 11% yoy. For Oct-26, exports ($40bn) rose 15% yoy, while imports ($21bn) were up 17% yoy. While the recent pick-up in services exports is welcome, the FY27TD average is still running below $18bn, while Nov-Mar FY26 saw average monthly net exports of ~$20bn, implying an unfavorable base for the next few months, with growth likely to slow.

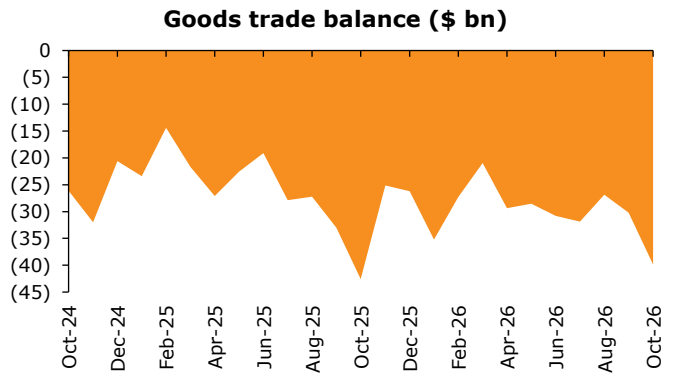
FY27E CAD/GDP maintained at 1.7%, but with downside potential emerging

We maintain FY27E CAD/GDP at 1.7% at an average Brent price of $100/bbl. However, there is downside potential if oil prices remain lower; FY27E CAD/GDP dips to 1.4% at $90/bbl average Brent. There may also be some upside potential to our BOP estimates due to the large FPI inflows seen since mid-Oct ($11.6bn), with the surplus now likely to be higher than estimated earlier ($3bn). The completion of the IDBI stake sale in FY27 will also bring in ~$5.5bn in FDI flows, providing a further boost to the BOP.

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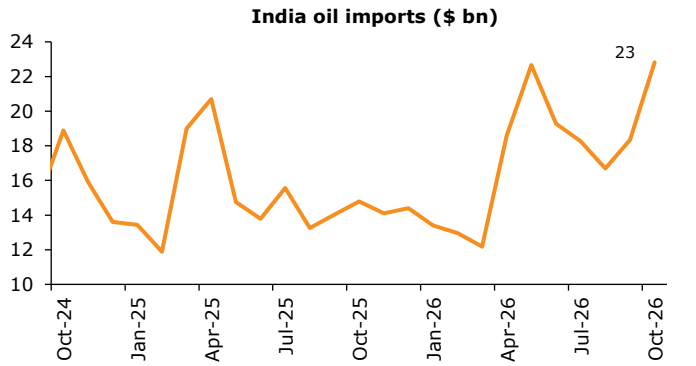
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Exhibit 1: Goods trade deficit rose to $40bn...



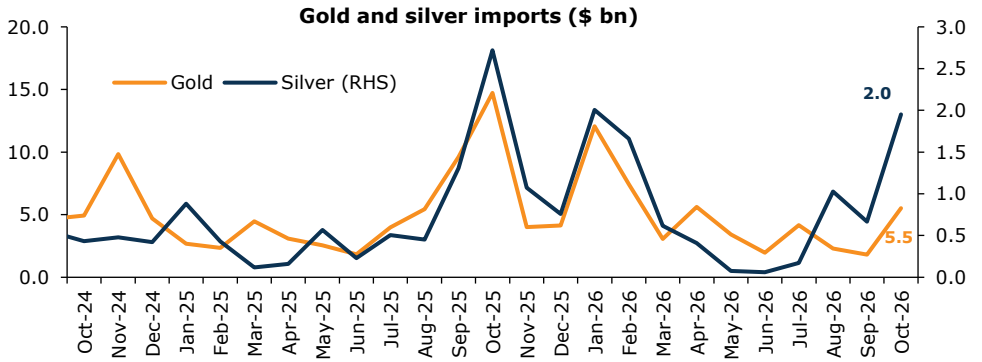
Source: CEIC, Emkay Research

Exhibit 2: ...as oil imports spiked to $23bn



Source: CEIC, Emkay Research

Exhibit 3: Both gold and silver imports rose sharply due to festive season demand



Source: CEIC, Emkay Research

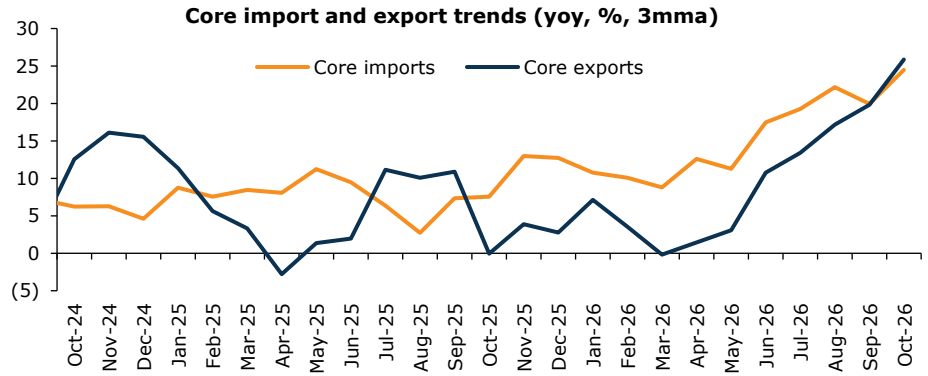
Exhibit 4: NONG export growth remains strong, but lower than NONG import growth

Goods trade summary	Oct-26 ($ bn)	Share of total (%)	mom (%) Oct-26	yoy (%) Oct-26	FY27TD ($ bn)	Share of total (%)	yoy (%) FY27TD
Exports	**49**	**100**	**11**	**45**	**309**	**100**	**22**
Oil	9	18	43	63	52	17	53
Non-oil	*41*	*82*	*6*	*33*	*258*	*83*	*17*
Gems and jewelry	3	6	-5	40	18	6	12
Non-oil non-gold	*37*	*76*	*7*	*33*	*239*	*77*	*18*
Engineering goods	13	26	5	36	84	27	22
Electronics	7	13	25	63	39	12	47
Drugs and pharma	3	6	0	11	19	6	6
Chemicals	3	6	-2	36	19	6	18
Imports	**89**	**100**	**20**	**17**	**527**	**100**	**16**
Oil	23	26	24	54	137	26	28
Non-oil	*67*	*74*	*18*	*7*	*390*	*74*	*13*
Gold	6	6	206	-63	25	5	-40
Non-oil non-gold	*59*	*66*	*10*	*33*	*361*	*69*	*21*
Coal	3	3	22	38	20	4	21
Fertilizers	2	3	33	-1	12	2	23
Capital goods	*29*	*32*	*4*	*25*	*183*	*35*	*27*
Electronics	14	16	-4	50	96	18	46
Machinery	6	7	11	22	41	8	17
Transport equipment	4	5	18	24	23	4	12

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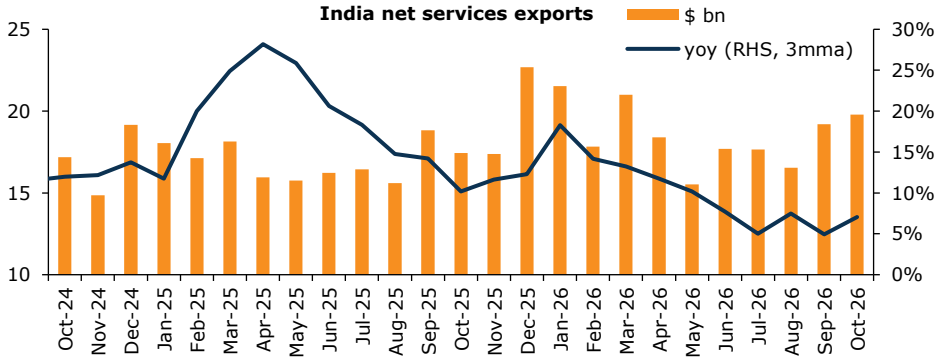
Source: CEIC, Emkay Research

Exhibit 5: However, the growth trend for core exports is now marginally higher than that for core imports



Source: CEIC, Emkay Research

Exhibit 6: Net services export growth has plateaued in recent months



Source: CEIC, Emkay Research

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Exhibit 7: FY27E CAD/GDP maintained at 1.7%, but with oil-led downside potential (and upside potential for BOP)

	Oil @83	*Oil @78.8*	*Oil @66.5*	*Oil @90*	*Oil @100*
($ bn)	**FY24**	**FY25**	**FY26**	**FY27E**	
Current account	**(26)**	**(23)**	**(28)**	**(59)**	**(68)**
CAB/GDP (%)	**(0.7)**	**(0.6)**	**(0.7)**	**(1.4)**	**(1.7)**
Trade balance	(245)	(287)	(337)	(383)	(393)
Trade balance/GDP (%)	**(7.0)**	**(7.6)**	**(8.6)**	**(9.4)**	**(9.6)**
- Exports	441	442	446	504	513
- oil exports	84	63	54	65	76
- non-oil exports	357	379	392	439	437
- Imports	686	729	783	887	906
- oil imports	179	186	174	210	229
- non-oil imports	508	543	610	671	671
- gold imports	46	58	72	71	71
Net invisibles	219	264	310	325	325
- Services	163	189	217	230	230
- software	142	160	180	187	187
- non-software	21	29	37	43	43
- Transfers	106	123	144	147	146
- Net Income	(50)	(48)	(50)	(52)	(52)
Capital account	**90**	**17**	**0.2**	**74**	**71**
% of GDP	**2.7**	**0.4**	**0.0**	**1.8**	**1.7**
Foreign investment	54	5	(11)	8	4
- FDI	10	1	8	20	20
- FPI	44	4	(18)	(12)	(16)
- Equities	25	(16)	(21)	(15)	(18)
- Debt	19	19	3	3	2
Banking capital	41	(10)	5	88	88
- NRI deposits	15	16	13	128	128
Short-term credit	(1)	7	18	8	8
ECBs	(0)	16	9	(20)	(20)
Others	(12)	(7)	(23)	(15)	(15)
Overall BoP	**64**	**(5)**	**(27)**	**16**	**3**

Source: Bloomberg, Emkay Research

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