

Merchandise trade deficit rose to a one-year high of USD32.1bn in Sep (Aug: USD26.5bn), primarily due to a surge in gold imports to USD10bn. Surprisingly, exports improved sequentially (3% MoM) despite a ~20% fall in US exports, as healthy export growth to EU, Middle East, and Asia mitigated the impact. Notably, tariff-hit sectors are also yet to see an adverse impact. Services surplus stayed stable at USD15.6bn, though that for Aug was revised down heavily, with services exports now showing negative growth. US export frontloading has helped keep the core exports trend healthy for 1HFY26, although this will now weaken as the 50% tariff hit continues. We maintain FY26E CAD/GDP at 1.2%, with negative (-6%) goods exports growth, led by the US. Net services export growth is also likely to slow down due to global uncertainty.

Gold import surge drives higher deficit, while exports rise despite US tariffs

Merchandise trade deficit rose to a one-year high of USD32.1bn (vs USD26.5bn in Aug), mainly due to a sharp rise in imports (USD68.5bn; 11% MoM, 17% YoY). Surprisingly, exports also increased (USD36.4bn; 4% MoM, 7% YoY) despite the 50% US tariff hit being felt over the full month. The higher imports were driven by gold imports rising to a 10-month high of USD9.8bn (77% MoM, 107% YoY), ahead of the festive season, with gold prices rising ~10%. Oil imports also increased, to USD14bn (6% MoM), while oil exports rose 11% MoM to USD5bn. For 1HFY26, total exports are at USD220bn with 3% growth, while imports have risen 5% to USD375bn despite both gold (USD27bn, -9% YoY) and oil (USD92bn, -1% YoY) being lower. As a result, the goods trade deficit for 1HFY26 stands at USD155bn (vs USD145bn last year).

Core deficit rises, though export growth trends have been better than imports

Core (non-oil, non-gold) deficit also rose, to USD16.3bn, with core exports (USD28.6bn, 1% MoM) rising less than core imports (USD44.9bn, 5% MoM). 1HFY26 has seen core exports at USD175bn (6% YoY), while core imports are at USD257bn (8% YoY). However, recent growth trends for core exports have been better than those for core imports, reflecting frontloaded US exports in 1HFY26. Among major export categories, Electronics (42% YoY for 1HFY26) have been the best performer, followed by Drugs and Pharma (6% YoY), Engineering Goods (5% YoY), and Organic and Inorganic Chemicals (3% YoY). Notably, tariff-affected sectors (Textiles, Gems and Jewelry) are yet to see any impact.

US exports drop sharply; mitigated by the EU, Middle East, Asia

Notably, exports to the US fell 20% MoM to USD5.5bn and are down ~32% from the pre-50% tariff July-level of USD8bn. However, frontloading of exports has meant that exports to the US were still ~13% higher for 1HFY26 (USD46bn vs USD40bn). While detailed data is awaited, initial estimates suggest that exporters were able to divert goods to Europe, the Middle East, and Asia, to mitigate US tariffs. With India searching for avenues to mitigate US tariffs, sharp jumps in exports to non-key markets (Hong Kong, Bangladesh, etc) may indicate some transshipment, although a trend is yet to emerge.

Services surplus stays steady, though export growth is starting to falter

Services surplus stayed steady at USD15.5bn in September, from the heavily downward-revised USD15.6bn in August (USD16.6bn earlier). Provisional services surplus for 1HFY26 is USD95bn, up 13%; however, gross services exports (USD193bn) have grown only 6%. For September, exports (USD31bn) declined 1% MoM, while imports (USD15bn) fell 2% MoM. Services exports, especially software services, are facing headwinds in FY26 from tariff-led global uncertainty, and growth is now starting to materially slow down.

FY26E CAD/GDP maintained at 1.2%

We maintain FY26E CAD/GDP at 1.2%, with negative merchandise export growth (-6%), especially US exports (-15%), even with non-oil import growth likely to slow down with sluggish domestic demand. Our estimates suggest that ~60% of Indian exports to US facing 50% tariffs will see a ~33% drop in FY26E, while the remaining (tariff-free) categories could still see healthy growth. The goods trade deficit/GDP is likely to rise to 7.6% of GDP (FY25: 7.3%), with Electronics exports being resilient. Net services exports are also likely to see slower growth, especially IT Services, due to global uncertainty and a potential US growth slowdown.

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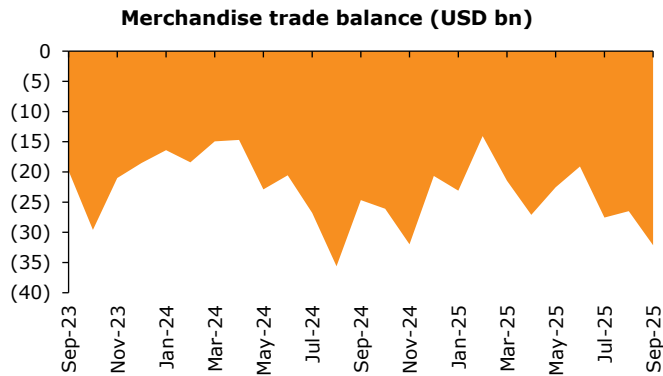
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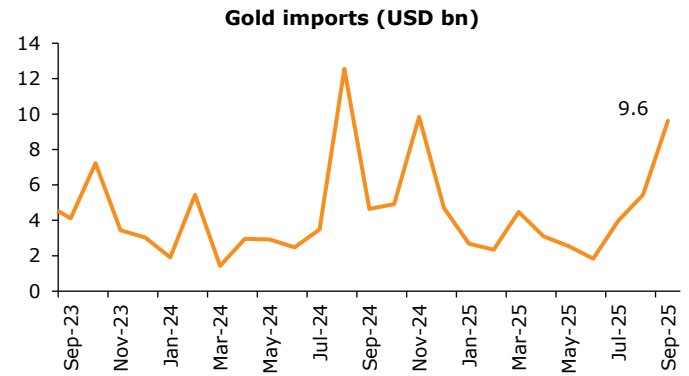
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Exhibit 1: Trade deficit rises to a one-year high of USD32bn as imports rose sharply...



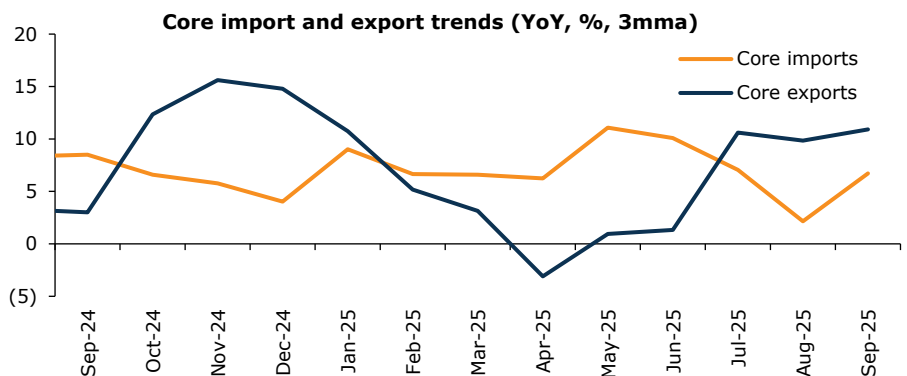
Source: CEIC, Emkay Research

Exhibit 2: ...led by a surge in gold imports to a 10-month high of USD10bn



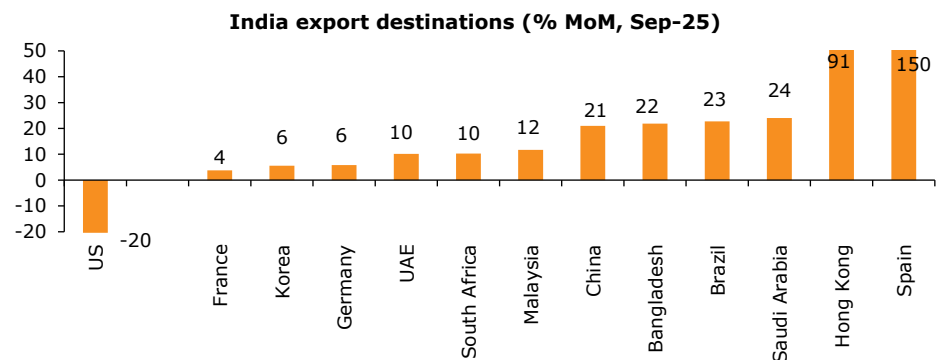
Source: CEIC, Emkay Research

Exhibit 3: However, core export trends have remained healthy, and higher than core imports



Source: CEIC, Emkay Research

Exhibit 4: The US export hit was mitigated by increased shipments to the EU, Middle East, Asia



Source: CEIC, Emkay Research

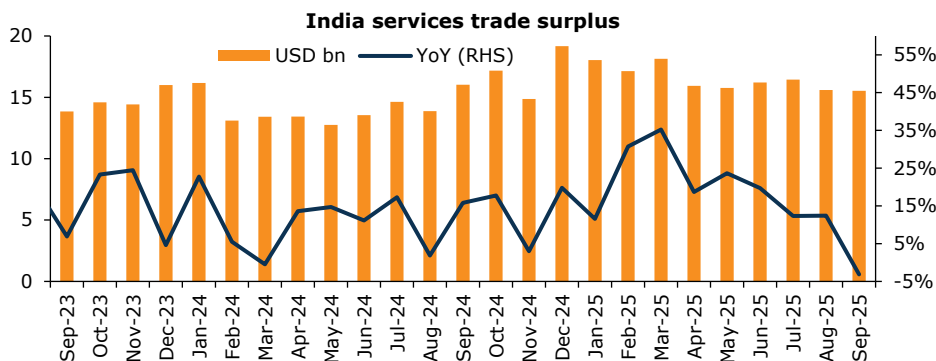
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Exhibit 5: Exports have seen robust growth, despite the US tariff hit, with gems and jewelry yet to see any impact

	Commodity	Sep-25	Share of	MoM (%)	YoY (%)	FYTD	Share of	YoY (%)
		(USD bn)	total (%)	Sep-25	Sep-25	(USD bn)	total (%)	FYTD
Export	Engineering Goods	10.1	28	2	3	59.3	27	5
	Petroleum Products	5.0	14	11	15	31.4	14	(10)
	Electronic Goods	3.1	9	6	51	22.2	10	42
	Gems & Jewellery	2.8	8	23	52	14.2	6	2
	Drugs & Pharma	2.6	7	4	3	15.4	7	6
	Total Tariff impact not yet visible	36.4	100	4	7	220.1	100	3
Import	Petroleum, Crude & Products	14.0	20	6	(6)	92.1	25	(1)
	Electronic Goods	9.8	14	1	15	56.2	15	17
	Gold	9.6	14	77	107	26.5	7	(9)
	Electrical and non-electrical machinery	5.0	7	(3)	9	29.6	8	14
	Organic & Inorganic Chemicals	2.6	4	15	3	14.7	4	(13)
	Total	68.5	100	11	17	375.1	100	5

Source: CEIC, Emkay Research

Exhibit 6: Services surplus growth is beginning to falter



Source: CEIC, Emkay Research

Exhibit 7: FY26E CAD/GDP maintained at 1.2%, with negative goods export growth

	Oil @45.8	Oil @79.8	Oil @95	Oil @83	Oil @78.8	Oil @70
(USD bn)	FY21	FY22	FY23	FY24	FY25	FY26E
Current account	24	(39)	(67)	(26)	(23)	(50)
CAB/GDP (%)	0.9	(1.2)	(2.0)	(0.7)	(0.6)	(1.2)
Trade balance	(102)	(189)	(265)	(245)	(287)	(319)
Trade balance/GDP (%)	(3.8)	(6.0)	(7.9)	(6.7)	(7.3)	(7.6)
- Exports	296	429	456	441	442	414
- oil exports	26	67	97	84	63	58
- non-oil exports	270	362	359	357	378	356
- Imports	398	619	721	686	729	733
- oil imports	83	162	209	179	186	167
- non-oil imports	316	457	512	508	543	566
- gold imports	35	46	35	46	58	64
Net invisibles	126	151	198	219	264	269
- Services	89	108	143	163	189	203
- software	90	110	131	142	160	169
- non-software	(1)	(2)	12	21	29	34
- Transfers	73	80	101	106	123	120
- Net Income	(36)	(37)	(46)	(50)	(48)	(54)

Source: CEIC, Emkay Research estimates

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