

# EXTERNAL TRADE

## Deficit narrows led by oil fall

India Equity Research | Economy



India's trade deficit for December narrowed significantly to ~USD13.0bn from USD16.7bn in November, largely reflecting the narrowing of oil deficit. Key takeaways: 1) oil deficit shrunk by USD2bn, reflecting a large fall in crude prices in December; 2) trade deficit, ex-oil, also narrowed, but modestly, largely reflecting seasonality; 3) on trend basis, non-oil exports growth is slowing with engineering goods as well as labour-intensive categories contributing to the slowdown.

Going ahead, we believe trade deficit could widen a tad in ensuing months (although deficit narrows seasonally in Q4). This will be led by further moderation in exports momentum (in line with global trade). Also, oil price tailwind, seen in December, is over and has reversed a bit in January. Crude prices and global demand remain key monitorables.

### Trade deficit narrows led by oil balance

Trade deficit for December came at USD13.0bn, improving MoM (USD16.7bn in November). This improvement can be attributed to: a) MoM improvement in oil balance by USD2bn (due to ~13% fall in crude oil prices); and b) MoM improvement in trade balance (ex-oil)—a common phenomena in December every year. However, on trend basis, non-oil exports continued to remain subdued.

### Exports growth remains weak

Exports growth in December was flat at 0.3% YoY with non-oil exports declining 2% YoY. Within components, labour-intensive exports failed to recover. Despite favourable base, labour-intensive sectors like readymade garments, gems & jewellery, among others, remained weak. Even exports of engineering goods (which were holding up reasonably well) have slowed sharply over the past two months. This is primarily a reflection of slowing global trade. As other global growth indicators continue to dim further, exports are likely to remain under pressure going ahead.

### Further gains in trade balance unlikely

The narrowing of trade deficit in December was essentially led by decline in oil deficit, which in turn was aided by significant dip in crude prices during the month. However, as oil prices have reversed since, we do not envisage incremental tailwind from oil balance. Meanwhile, exports are likely to continue to moderate given the slowing global economic momentum. To that extent, a modest widening in trade deficit in ensuing months is likely.

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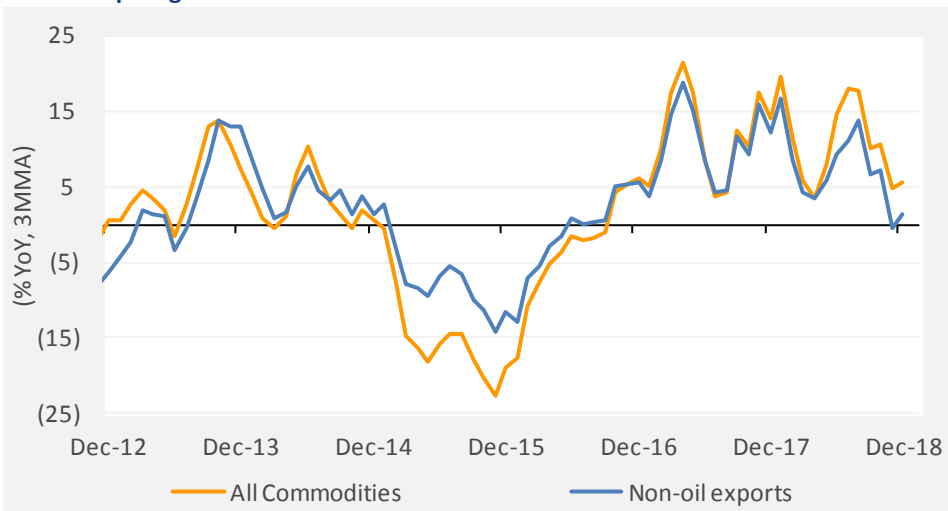
January 15, 2019

**Table 1: India's merchandise trade**

(USD bn)	Apr-Dec							
	Dec-18	Nov-18	Oct-18	Sep-18	Aug-18	Jul-18	FY19	FY18
Imports	41.0	43.2	44.1	42.0	45.3	43.8	387.9	343.3
Oil imports	10.7	13.5	14.2	11.0	11.9	12.4	108.4	75.7
Gold imports	2.6	2.8	1.8	2.6	3.6	3.0	24.8	26.6
Non oil and gold imports	27.8	26.9	28.1	28.4	29.7	28.5	254.8	241.1
Exports	27.9	26.5	27.0	27.9	27.9	25.8	244.9	222.8
Trade balance	(13.1)	(16.7)	(17.1)	(14.0)	(17.4)	(18.0)	(143.0)	(120.6)

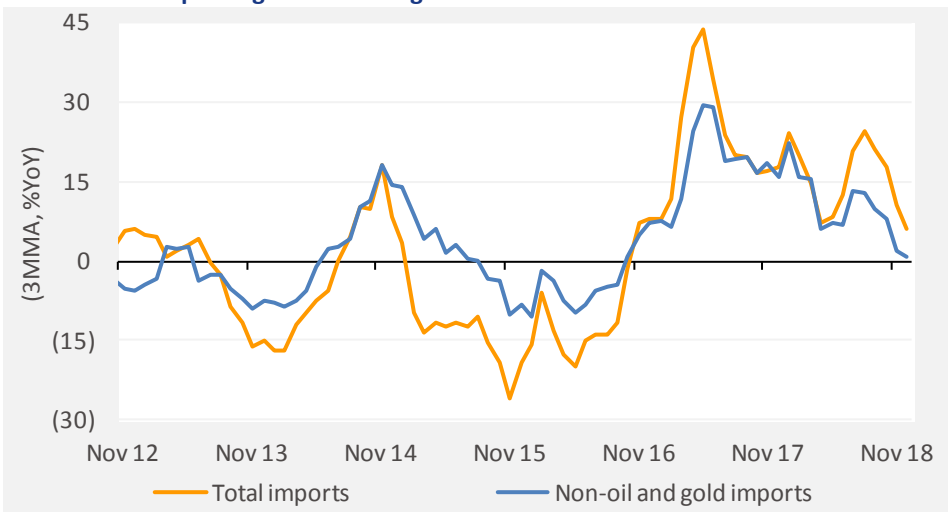
Source: Ministry of Commerce, Edelweiss research

**Chart 1: Export growth remains subdued**



Source: CMIE, Ministry of Commerce, Edelweiss research

**Chart 2: Total imports' growth slowing**



Source: CMIE, Ministry of Commerce, Edelweiss research

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#### Recent Research

Date	Title	
14-Jan-19	<b>Inflation</b>	Food benign, but core jumps
11-Jan-19	<b>IIP</b>	Headline weak; to slow further
28-Dec-18	<b>Economy Release Calendar</b>	January 2019
17-Dec-18	<b>External Trade</b>	Trade deficit slows sequentially, but stays elevated

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