

India January trade deficit

Oil imports drive deficit higher

India's merchandise trade deficit widened significantly to a 7-month high of USD 15.2 bn in Jan-20 vis-à-vis USD 11.3 bn in Dec-19. While markets expected the trade deficit to moderate, the actual print surprised in the opposite direction (Bloomberg consensus: USD 11.0bn ; YBL estimate: 10.4 bn). The increase in trade deficit was driven by a sharp increase in oil imports followed by non-oil and non-gold (NONG) imports and marginal decline in overall exports.

- ✓ On sequential basis, exports contracted by 5% in Jan-20 from an expansion of 5.1% recorded in the previous month. However, imports registered an expansion of 6.5% from an expansion of 1.3% in Dec-19.
- ✓ On annualized basis, exports contracted by 1.7% in Jan-20, marginally up from a contraction of 1.6% in the previous month. On the other hand, imports contracted by 0.8% after posting a contraction of 8.8% in Dec-19. While imports remained in the negative territory for the eight consecutive month the magnitude of contraction has come down drastically.

Exports appear subdued...

In value terms, total exports moderated sequentially to USD 26.0 bn in Jan-20 from USD 27.4 in Dec-19 led by decline in both oil and non-oil exports. Within non-oil exports, the decrease was led by engineering goods followed by agricultural and electronic goods. While insufficient in overall magnitude, there was offsetting impact from exports of gems & jewellery and textile products, which saw an improvement in outbound shipments on sequential basis. The subdued performance of India's exports is in line with other key Asian countries that have released their trade data so far – countries like South Korea and Taiwan have both seen a decline in their export performance during the month of Jan-20.

...but imports have shot up

In value terms, total imports increased to a 8-month high of USD 41.1 bn in Jan-20 from USD 38.6 in Dec-19 led by increase in oil and NONG imports which more than offset decline in gold imports.

- ✓ Oil imports increased by USD 2.3 bn to USD 13.0 bn despite a 2.2% MoM drop in price of India Crude Basket. While the sequential increase in magnitude of oil imports could be capturing some lagged impact, it could also be manifesting an improvement in volume demand for crude oil domestically. Going forward, we expect oil imports to correct on account of sharp decline in oil prices after coronavirus hit demand and fueled concerns of excess supplies.
- ✓ NONG imports improved marginally by USD 1.1 bn to USD 26.6 bn. The improvement was recorded on the back of higher import of electronics, capital goods and project goods which bodes well for the overall investment sector.
- ✓ Gold imports decreased to a 4-month low of USD 1.6 bn from USD 2.5 bn imported in the previous month. It posted a decline of 36% MoM due to increase in global bullion prices by 5.18% in Jan-20.

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Services surplus weighed down by imports

Net services surplus improved by USD 0.9 bn to USD 7.4 bn in Dec-19 due to sequential increase in services exports by 11.2% as against an import growth of 9.4% MoM. On annualized basis, exports posted a double digit growth whereas imports recorded a moderation vis-à-vis Nov-19.

- ✓ Annual export growth increased by 11.6% in Dec-19 from 7.9% last month.
- ✓ Annual import growth increased by 10.4% in Dec-19 as against an increase of 13.5% in the previous month.

Our take

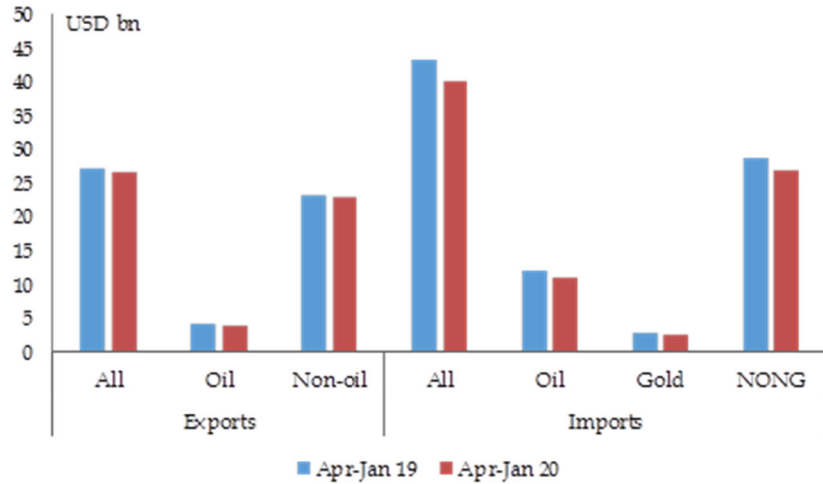
Incorporating today's print the average trade deficit on FYTD (Apr-Jan) basis stands lower at USD 13.7 bn from USD 16.3 bn recorded in the corresponding period of the last fiscal. While India's external metrics looks soothing, underling reason for the comfort doesn't bode well for India's growth story as the decline is led by slump in both imports and exports. (chart 1)

1. On annual basis, overall imports have contracted by 8.1% in FYTD 20 vis-à-vis an expansion of 14.1% recorded in corresponding period of FY19 led by bleak domestic demand conditions and lower commodity prices. Going forward, with economic uncertainty on rise (chart 2), consumption remaining subdued and overall credit impulse weighing on investment activity we expect imports to remain on a weaker turf. While direct risk to India's economy from the recent outbreak of 2019-nCov in China is expected to be limited, risks to India's imports persists on account of high dependence on China especially for electronic and chemical goods.
2. Exports on the other hand also recorded a contraction of 1.9% in FYTD 20 vis-à-vis a robust growth of 9.1% in the previous fiscal on account of headwinds from distortionary trade measures and deceleration in global growth. However, this deceleration in exports is likely to bottom out on account of-
 - ✓ Measures announced in FY21 Union Budget including but not limited to tax refund scheme and enhanced credit to exporters. The government has also recently introduced a more WTO compliant scheme called Remission of Duties or Taxes on Export Product (RoDTEP), replacing the existing Merchandise from India Scheme (MEIS), which is expected to adequately incentivize exporters. Along with this, new developments on negotiation between India and the US will be closely monitored to gauge an impact on growth in overall exports.
 - ✓ On the global front, signing of phase-one trade deal between the US and China along with turnaround in global PMIs and modest economic growth recovery in the US holds positive for India's export. However, the temporary dislocation in demand from the outbreak of coronavirus needs to be monitored as it could pose a mild adverse impact.

Taking into account the above factors and after incorporating the recent trend in the monthly data, we continue to expect FY20 CAD to moderate to 1.0% of GDP from 2.1% in FY19.

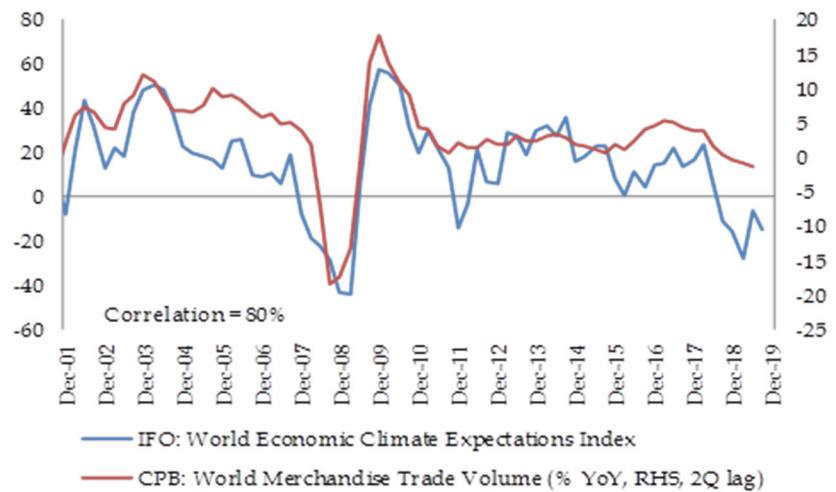
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Chart 1: Snapshot of broad categories of India's external metrics



Source: Bloomberg, YES BANK Limited

Chart 2: Global uncertainty weighing on trade activity



Source: Bloomberg, YES BANK Limited

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