TRADE

03 November 2020

Domestic demand improves in Oct'20

India's trade deficit expanded to a 7-month high of US$ 8.8bn in Oct'20 from US$ 2.7bn in Sep'20 led by higher gold and non-oil-non-gold imports. With domestic economic activity showing signs of pick-up (GST, electricity demand, electronic imports), imports are likely to show a much stronger rebound than exports in H2. Even so, trade deficit in FY21 is estimated at US$ 75bn versus US$ 158bn in FY20. Given a current account surplus of 1.5% of GDP in FY21, we expect INR to remain in range of 73.0-74.5/$.

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Non-oil exports increase at a slower pace: Preliminary data for Oct'20 shows a fall of 5.4% in India's exports from an increase of 6% in Sep'20. Oil exports were down by 53.3% in Oct'20 versus an increase of 5.2% in Sep'20. Non-oil exports rose at a relatively slower pace of 1.8% in Oct'20 versus an increase of 6.1% in Sep'20. Exports of drugs and pharmaceuticals showed slight deceleration to 21.8% versus 24.4% in Sep'20. Exports of chemicals however accelerated. In FYTD21, exports are down by 18.7% compared with 2.5% drop in FYTD20. Rising global Covid-19 cases and resultant lockdowns will impact India's exports, especially to America (22.5% share in India's exports in FY19) and Europe (19.5% share).

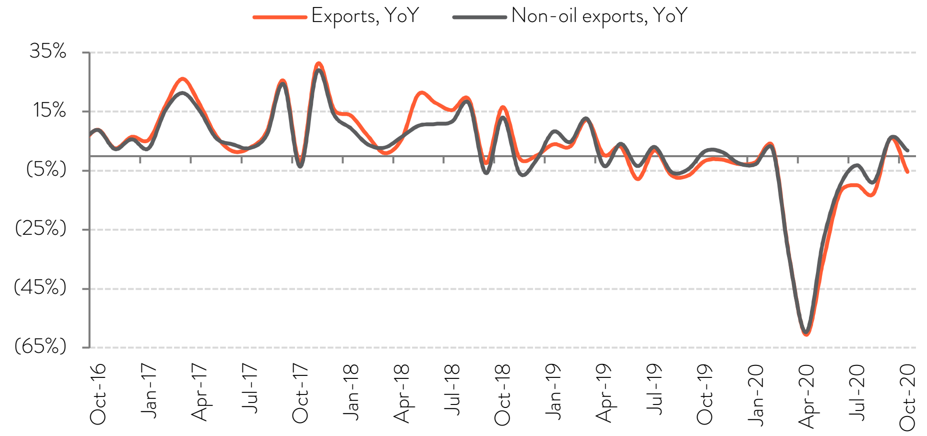
Imports improve: Imports continued to show a steady improvement and contracted by 11.6% in Oct'20 versus a dip of 19.6%. This was led by an increase in gold imports at 35.9% versus a dip of 52.8% supported by festive demand even as gold prices were lower (1.2% MoM). Non-oil-non-gold imports also contracted at a slower pace of 8.3% in Oct'20 versus 12.6% decline in Sep'20, signalling a pickup in domestic demand. Electronic imports rose by 16.1% in Oct'20 versus an increase of 3.5% in Sep'20. Oil imports contracted at a faster pace of 38.5% versus a decline of 35.9% in Sep'20.

Trade deficit to expand: India's trade deficit rose to a 7-month high of US$ 8.8bn from US$ 2.7bn in Sep'20 led by a pickup in imports. Economic activity is recovering as is visible in high frequency indicators such as manufacturing PMI (13-year high at 58.9 in Oct'20), improvement in electricity demand (5.3% in Oct'20 from 2.5% in Sep'20) and GST collections of Rs 1tn (10.2% higher over last year). This suggests imports are likely to increase further. Festive demand will also keep gold imports high. The outlook for exports is relatively muted due to second wave of Covid-19 hitting Europe and US. We expect trade deficit to increase to US$ 75bn in FY21 (US$ 32.5bn in FYTD21) compared with US$ 158bn in FY20.

KEY HIGHLIGHTS

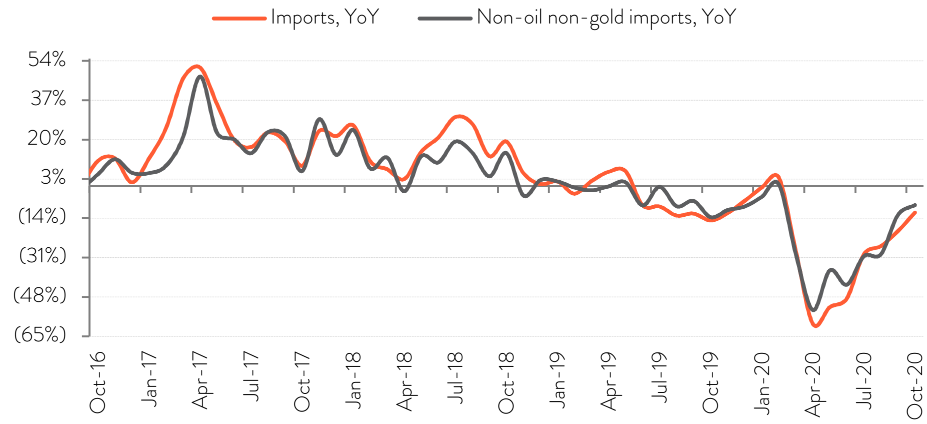
- Exports fell by 5.4% in Oct'20 compared with an increase of 6% in Sep'20.
- Imports contract by 11.6% in Oct'20 versus a decline of 19.6% in Sep'20.
- Trade deficit rises to US$ 8.8bn from US$ 2.7bn in Sep'20.

FIG 1 – EXPORTS FALL BY 5.4% IN OCT'20



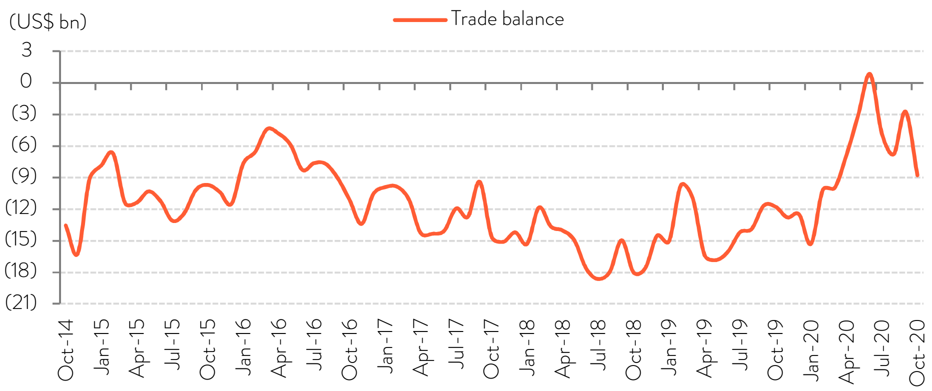
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS CONTINUE TO IMPROVE



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT EXPANDED IN OCT'20



Source: CEIC, Bank of Baroda Research

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