Trade balance turns surplus in June

India's merchandise trade balance turned surplus of US$ 793mn in June (vs. -US$ 3.1bn in May)—the first since January 2002—led by a sharp fall in imports for the fourth month in a row, even as contraction in exports narrowed significantly on the expected lines. India's export bill declined by 12.4% YoY in June—much lower than the 43% drop seen over the previous three months, led by a significant recovery in exports of engineering goods as well as strong growth in exports of essential commodities (agri commodities, pharma and other chemicals). Imports on the other hand barely recovered, witnessing a contraction of 48% YoY in June, over and above the 47% drop seen during Mar-May 2020. While oil and gold imports led the drop for yet another month, a 41% YoY contraction in non-oil non-gold imports—worse than the previous month despite continued easing of restrictions—points to a significant and prolonged weakness in aggregate demand.

Exports are expected to continue to recover as an aggressive global policy response globally should help revive global demand faster. Recovery in imports, however, is expected to be slow and gradual as a stringent and prolonged lock-down in India and its second-order impact in the form of job losses and decline in disposable incomes may keep discretionary demand weak for an extended period. This is expected to keep trade balance fairly low over the coming months, potentially translating into a current account surplus in FY21—the first in 17 years. Additionally, a surge in foreign exchange reserves to all-time high levels (US$ 513bn as of July 3rd, +US$ 56bn YTD) bodes well for the INR.

- Pace of contraction in exports narrowed meaningfully in June...: After registering a ~43% YoY drop during Mar-May 2020, thanks to a stringent nation-wide lockdown that got extended until May-end, exports recovered meaningfully in June, falling by just 12.4% YoY. This was led by a significant recovery in exports of engineering goods (-7.5% YoY), and a strong growth in exports of essential categories for yet another month, viz. agricultural commodities (rice, spices), ores, chemcials and pharmaceuticals. This was partly offset by a continued sharp decline in exports of petroleum products (-31.6% YoY) and labour-intensive commodities such as gems & jewellery (-50.1% YoY) and readymade textiles (-34.8% YoY), as limited labour availability and social distancing norms kept production levels low, despite further easing of restrictions during the month. Excluding these three, the contraction in exports was much lower at 1.4% YoY in June.

Exports recovered meaningfully in June, falling by 12.4% YoY vs. 43% YoY drop during Mar-May 2020.

- **...While imports** barely recovered, falling by 48% YoY...: Unlike exports, imports registered a lacklustre performance for the fourth month in a row, with the overall bill falling by 47.6% YoY in June, following a 47% YoY drop during March-May 2020. Oil imports declined by a huge 55.3% YoY, reflecting weak domestic demand and lower crude oil prices compared to the year-ago period. While gold imports recovered on a sequential basis, the YoY contraction remains huge at 77.4% YoY despite a surge in gold prices. Excluding gold and oil, imports registered a huge 41.4% YoY drop in June—higher than the 36.4% decline seen in the previous month—reflecting a significant and prolonged weakness in aggregate demand. Like the trend seen in exports, imports of essential items including medicinal & pharmaceutical products, and other chemicals were relatively less impacted.

Imports fell by a much higher 48% YoY in June. An equivalent drop in non-oil no-gold imports points to a significant and prolonged weakness in consumption demand.

- **...**resulting in trade balance turning surplus for the first time in 18+ years: A much sharper contraction in imports as compared to exports, thanks to relatively faster reopening of global economies and an aggressive policy response as compared to India, resulted in a trade surplus of US$ 793mn in June—the first since January 2020.

Trade balance turned surplus of US$ 793mn in June—the first since January 2002.

- Expect current account surplus in FY21: Exports are expected to fare better than imports in FY21, benefiting from an aggressive global policy response and relatively lenient lockdown restrictions. India, on the other hand, has seen one of the most stringent and extended lockdowns which not only brought the economic activity to a stand still for a couple of months, but has significantly deteriorated consumption as well as investment demand. In fact, discretionary demand is expected to remain weak in India for an extended period in the wake of falling disposable incomes and changing consumer behaviour. This, along with lower crude oil prices as compared to FY20, should result in a significant contraction in trade deficit in FY21, translating into a current account surplus vs. a current account deficit of 0.9% of GDP in FY20. Moreover, a surge in foreign exchange reserves to all-time high levels (US$ 513bn as of July 3rd, +US$ 56bn YTD) bodes well for the INR.

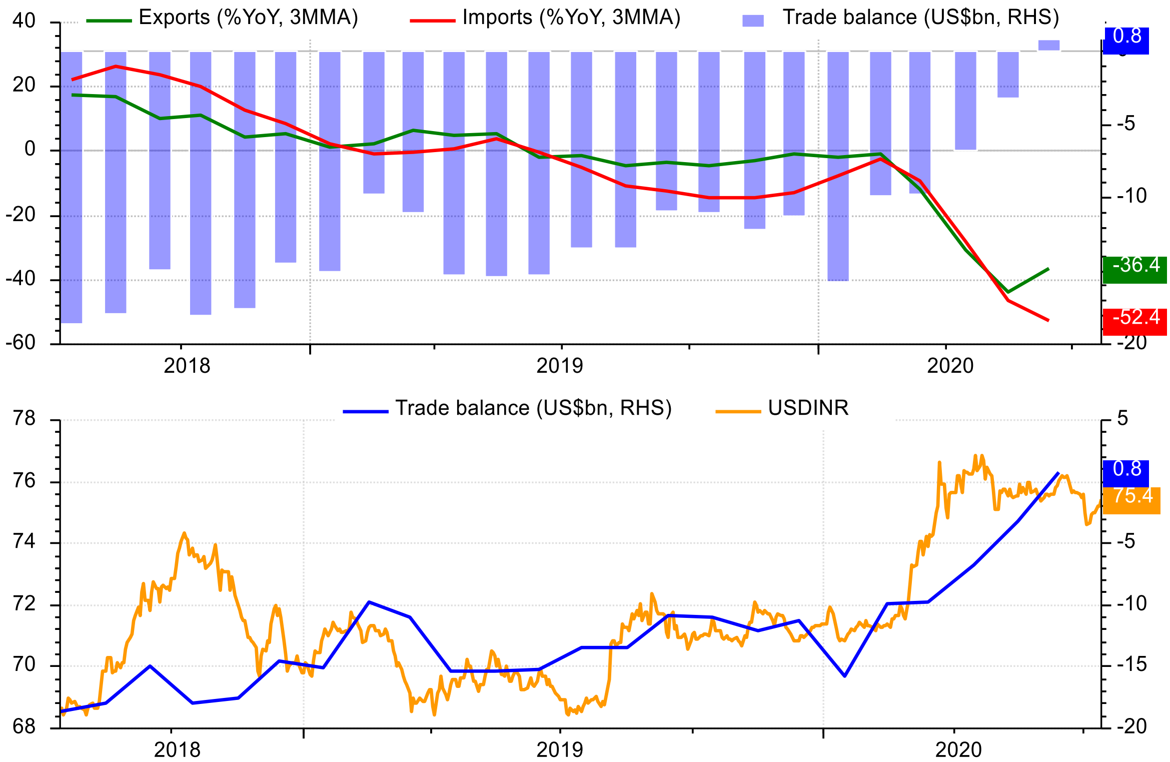
A significant deterioration in trade deficit is likely to translate into a current account surplus in FY21 vs. a current account deficit of 0.9% of GDP in FY20.

Figure 1: India monthly trade balance for June 2020

	Exports		Imports								Trade balance
	US$ bn	%YoY	Total (US$ bn)	%YoY	Oil imports (US$ bn)	%YoY	Non-oil imports (US$ bn)	%YoY	Gold Import (US$ bn)	%YoY	US$ bn
Jun-20	21.9	-12.4	21.1	-47.6	4.9	-55.3	16.2	-44.7	0.6	-77.4	0.8
May-20	19.1	-36.2	22.2	-52.4	3.5	-72.3	18.7	-45.1	0.1	-98.4	-3.1
Jun-19	25.0	-7.9	40.3	-10.1	11.0	-13.6	29.3	-8.7	2.7	13.0	-15.3
FY21TD	51.3	-36.6	60.4	-53.3	13.1	-62.8	47.4	-49.7	0.7	-94.0	-9.1

Source: Ministry of Commerce, CMIE Economic Outlook, NSE

Figure 2: India monthly trade balance trend



Source: Refinitiv Datastream, NSE

Figure 3: Non-oil, non-gold imports trend

Non-oil non-gold imports remained weak for yet another month, falling by 41% YoY in June

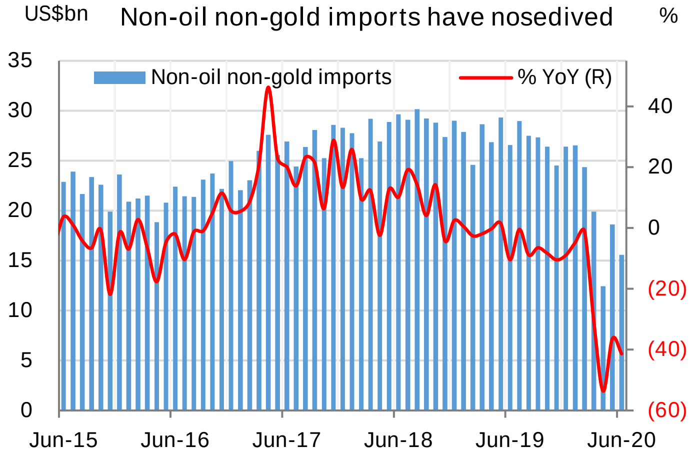
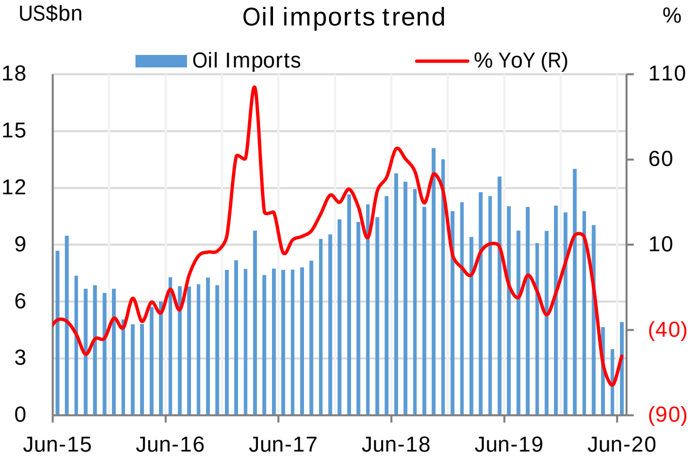


Figure 4: Oil imports trend

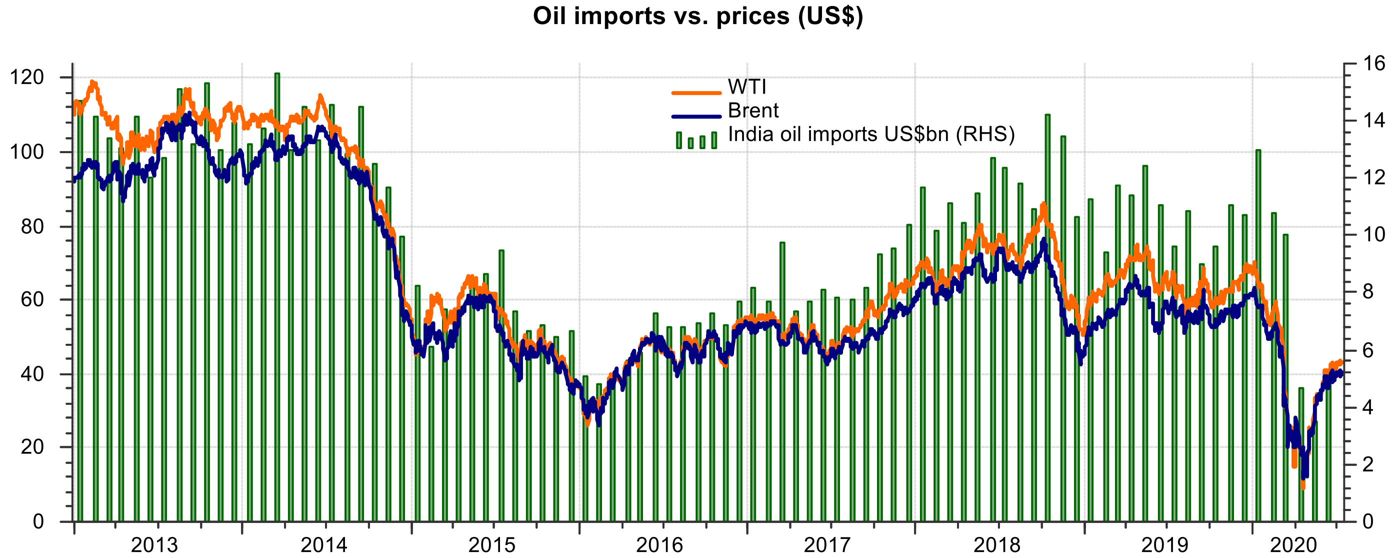
Oil imports fell by a much sharper 53% YoY in June, reflecting lower crude oil prices and weak demand.



Source: Ministry of Commerce, CMIE Economic Outlook, NSE

Figure 5: Oil imports vs. Brent crude oil prices trend

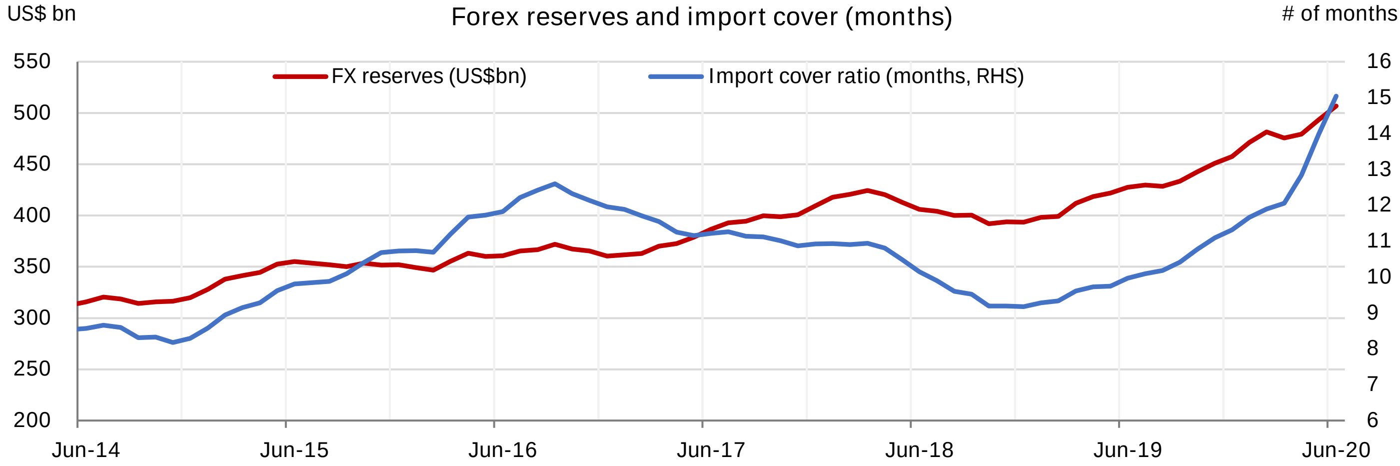
An increase in crude oil prices over the last few weeks, coupled with continued lifting of mobility restrictions, should translate into a pick-up in oil imports on a sequential basis over the coming months.



Source: Refinitiv Datastream, NSE

Figure 6: India's foreign exchange reserves and import cover

On the positive side, a significant accretion to forex reserves over the years, and particularly this year (+US$ 56bn in 2020 till date), has resulted in a significant improvement in import cover, further supported by moderation in domestic demand. After falling to eight months in 2014, India's import cover has improved sharply to 14 months now, thereby reducing India's external vulnerability.



Source: CMIE Economic Outlook, NSE. Import cover is calculated as the ratio of forex reserves at the end of the period to average monthly imports over the last 12 months

Economic Policy & Research

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Prerna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163

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