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Macro Review

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Trade deficit widens in March on higher gold imports

India's merchandise trade deficit widened to US$13.9bn in Mar'21 from a three-month low of US$13.0bn in the previous month. Both imports and exports registered a strong rebound on MoM as well as YoY basis, with the latter supported by a favorable base. A sharp surge in gold imports (592%YoY/61%MoM), accompanied with a robust expansion in non-oil non-gold imports (47%YoY/13%MoM), aided the overall inbound shipments (54%YoY/19%MoM). Following a lull period, exports also saw a strong recovery, rising by 60% YoY and 25% MoM, led by a rebound across the board. Notably, both exports and imports in March 2021 were at record-high levels in value terms. A part of this spike may be attributed to hastened delivery of contracts amid expectations of re-imposition of lockdown restrictions owing to a sudden spike in COVID cases. In FY21, exports and imports fell by 7.2% and 17.2% respectively, leading to merchandise trade deficit contracting by 36.5% to US$102.5bn.

While optically the performance looks encouraging, the two-year CAGR shows a modest 3% and 5% expansion in exports and imports respectively, indicating a nascent economic recovery. Going ahead, renewed tightening of restrictions by several state governments to curb the spread may weigh on domestic demand, thereby impeding the core-import growth momentum. A significant pick-up in pace of inoculations and bare minimum targeted restrictions are critical to avert any severe disruption to the ongoing economic recovery. On the other hand, strengthening global growth prospects—bolstered by an enhanced fiscal policy support in the US and significant progress in vaccination drives—augers well for export growth momentum. We maintain expectations of a current account surplus of 1.1% of GDP in FY21, attributed to a sharply lower trade deficit and steady services exports. In FY22, we expect current account to slip into deficit again (est.: 0.7% of GDP), even as global risk-on sentiments are likely to keep the Balance of Payments (BoP) in a comfortably surplus position.

A strong dollar rally, thanks to firming US bond yields and strengthening US macroeconomic landscape, has significantly weighed on Emerging Market (EM) currencies over the last couple of months. While the INR found support during this period from adequate forex reserves and a rare current account surplus expected in FY21, it has depreciated by more than 2% against the dollar in April thus far amid renewed growth uncertainty, unwinding of carry trades and an expected surge in money supply post **RBI's enhanced liquidity support**. In the near-term, depreciating pressures on the INR are likely to persist, even as a comfortable current account situation and an effective RBI intervention may limit the downside.

- Exports exhibited sharp uptick on a muted base: Following a lull period, exports witnessed a strong rebound in March, led by a broad-based recovery. On an annual basis, exports grew by 60% to all-time high of US$34.5bn in March (+25% MoM), albeit off a low base. While petroleum exports grew by 35%YoY/40%MoM, non-POL exports registered a 64%YoY/24%MoM expansion. Within non-POL items, stellar growth in exports of electronic (92%YoY/16%MoM), engineering goods (71%YoY/41%MoM) and gems and jewellery (79%YoY/35%MoM) aided the momentum. Alongside, other items such as iron ore (195%YoY/55%MoM), rice (67%YoY/22%MoM), organic and inorganic chemicals (47%YoY/90%MoM) and readymade garments (28%YoY/6%MoM) also gained traction. While issues related to trade route blockage and container shortages weighed on the export growth during first few days of March, persistent buoyancy in global demand, supported by strong progress in vaccination drive, fuelled overall export growth in March. In FY21, merchandise exports contracted by 7.2% YoY to US$290.8bn.

Exports witnessed a sharp recovery following a lull period, and rose by 60% YoY/25% MoM, led by a rebound across the board.

- Imports also showed a significant traction amid continuous normalisation of activities: Sharp escalation in gold imports (592%YoY/61%MoM), accompanied with a robust expansion in non-oil non-gold imports (47%YoY/13%MoM), aided the overall inbound shipments, which rose by a strong 54%YoY (on top of a 28% YoY drop in Mar'20) and 19%MoM. Oil imports also recovered, posting a modest 2.2%

India's import bill grew by a strong 53.7% YoY in Mar'21, primarily led by a huge jump in gold and non-oil, non-gold imports.

YoY growth in Mar'21, but rose by a strong 14% on a sequential basis. Within the core-import basket, growth of electronic goods (77%YoY/17%MoM), iron steel (55%YoY/62%MoM) and machinery (44%YoY/16%MoM) remained quite resilient. Overall merchandise imports fell by 17.2% YoY to US$393.3bn FY21.

- Trade deficit widens in March after recording a three-month low in Feb: From a three-month low of US$13bn recorded in Feb'21, merchandise trade deficit widened to US$13.9bn in March, thanks to a sequentially higher jump in imports in value terms as compared to exports. For the year as whole, trade deficit contracted by 36.5% to US$102.5bn, primarily led by a strong 53.8% drop in non-oil, non-gold trade deficit.

Trade deficit widened to US$13.9bn in Mar'21 from a three-month low of US$13.0bn in Feb'21.

- Exports likely to outpace imports in the near term: While optically the performance looks encouraging, the two-year CAGR shows a modest 3% and 5% expansion in exports and imports respectively, indicating a nascent economic recovery. Going ahead, renewed tightening of restrictions by several state governments to curb the spread may weigh on domestic demand, thereby impeding the core-import growth momentum. A significant pick-up in pace of inoculations and bare minimum targeted restrictions are critical to avert any severe disruption to the ongoing economic recovery. On the other hand, strengthening global growth prospects—bolstered by an enhanced fiscal policy support in the US and significant progress in vaccination drives—augers well for export growth momentum. We maintain expectations of a current account surplus of 1.1% of GDP in FY21, attributed to a sharply lower trade deficit and steady services exports. In FY22, we expect current account to slip into deficit again (est.: 0.7% of GDP), even as global risk-on sentiments are likely to keep the BoP in a comfortably surplus position.

We estimate a current account surplus of 1.1% of GDP in FY21 but expect a deficit of 0.7% of GDP in FY22.

Sustenance of foreign capital inflows should keep the BoP in a comfortably surplus position.

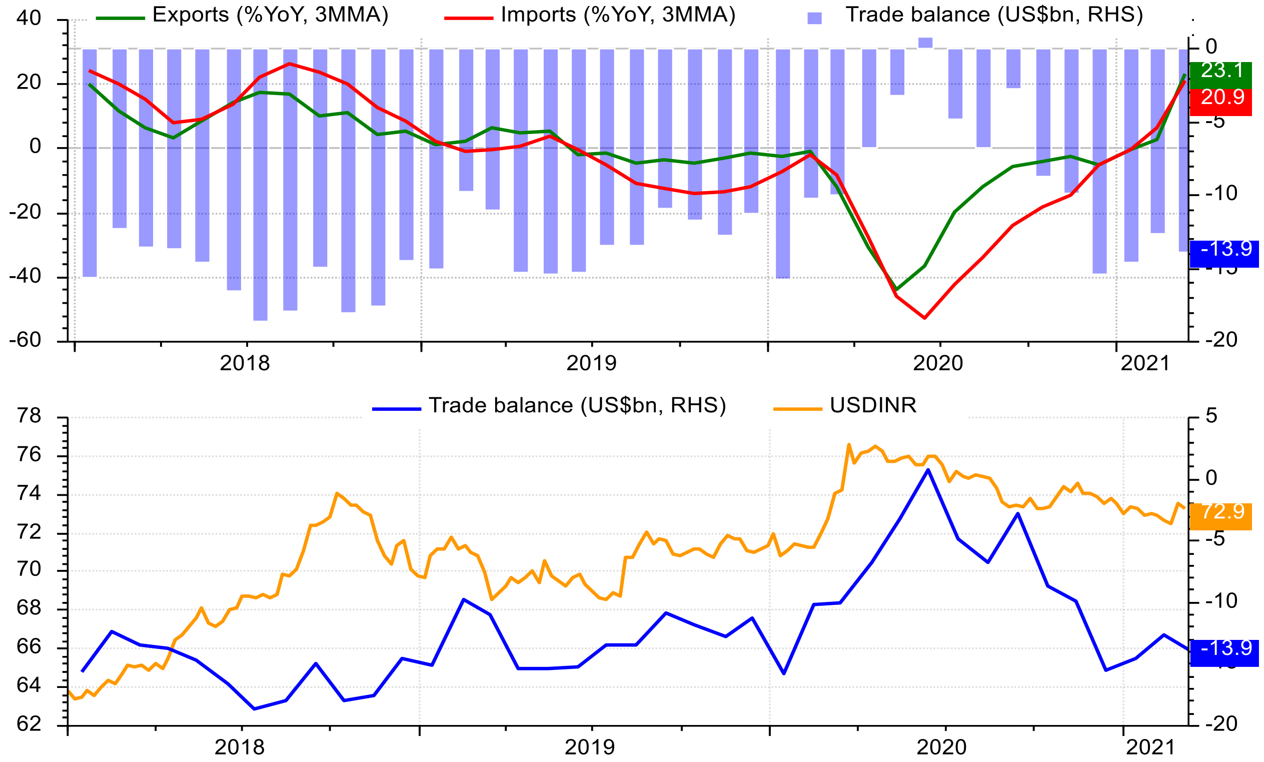
- INR likely to remain under pressure in the near term: A strong dollar rally, thanks to firming US bond yields and strengthening US macroeconomic landscape, have significantly weighed on Emerging Market (EM) currencies over the last couple of months. While the INR found support during this period from adequate forex reserves and a rare current account surplus expected in FY21, it has depreciated by more than 2% against the dollar in April thus far amid renewed growth uncertainty, unwinding of carry trades and an expected surge in money supply post RBI's enhanced liquidity support. In the near-term, depreciating pressures on the INR are likely to persist, even as a comfortable current account situation and an effective RBI intervention may limit the downside.

Figure 1: India monthly trade balance for March 2021

	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
Mar-21	34.4	60.3	48.4	53.7	10.3	2.2	38.1	77.9	8.5	591.8	-13.9
Feb-21	27.5	-0.8	40.5	7.0	9.0	-16.3	31.5	16.2	5.3	123.9	-13.0
Mar-20	21.5	-34.3	31.5	-28.0	10.0	-14.7	21.4	-32.9	1.2	-62.6	-10.0
FY21	290.8	-7.2	393.3	-17.2	82.6	-36.7	310.7	-9.7	34.6	22.6	-102.5

Source: Ministry of Commerce, CMIE Economic Outlook. FY21: Apr'20-Mar'21

Figure 2: India monthly trade balance trend



Source: Refinitiv Datastream.

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

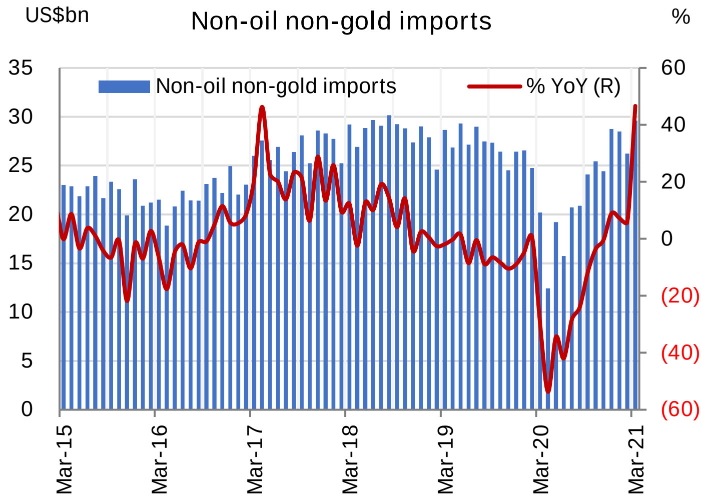
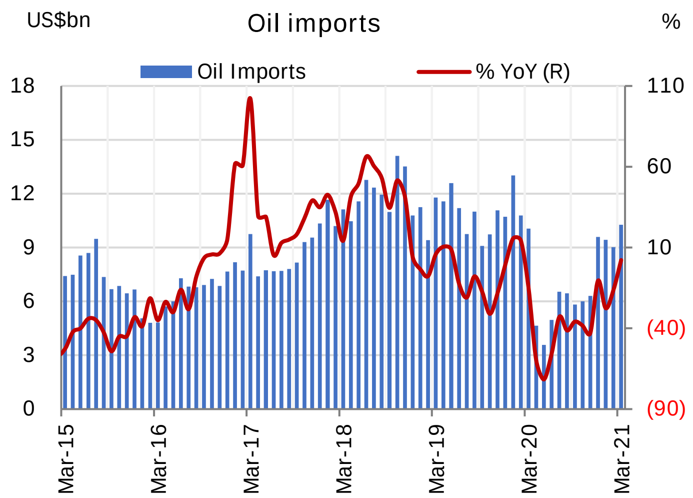
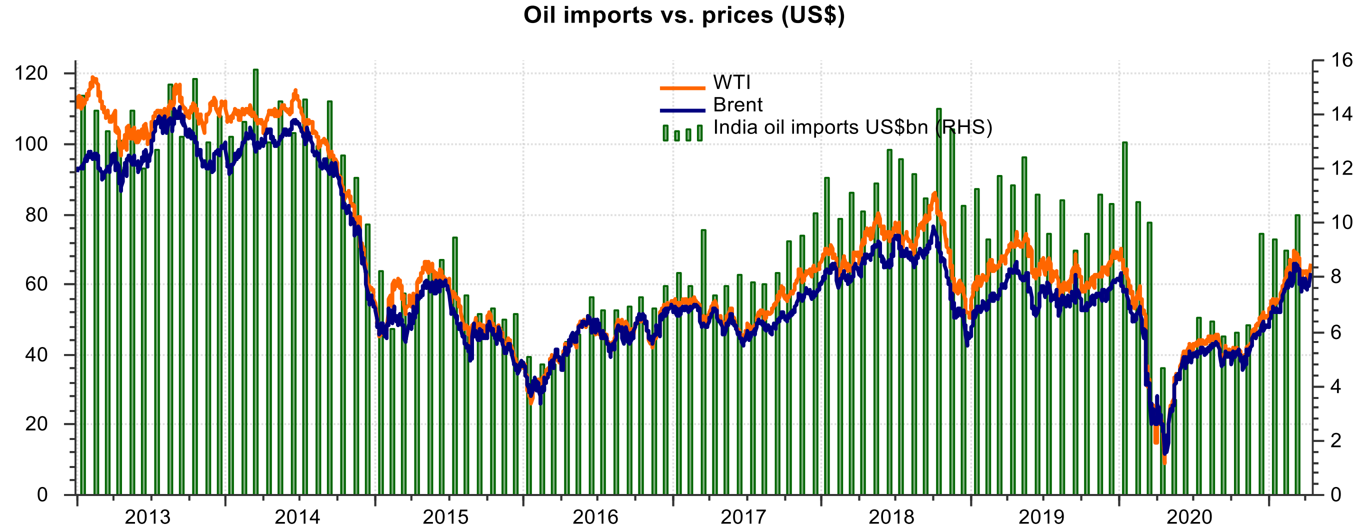


Figure 4: Oil imports trend



Source: Ministry of Commerce, CMIE Economic Outlook.

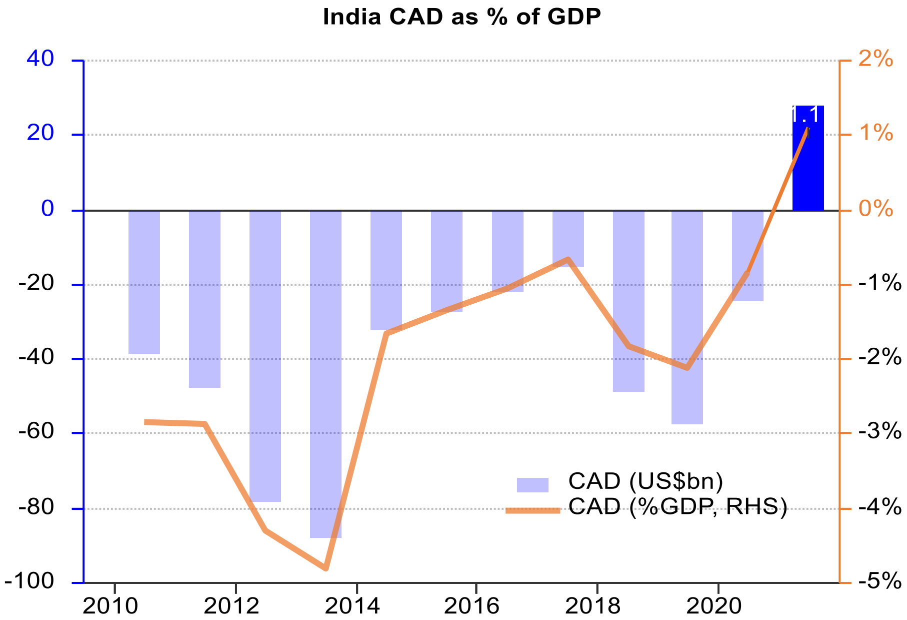
Figure 5: Oil imports vs. Brent crude oil prices trend



Source: Refinitiv Datastream.

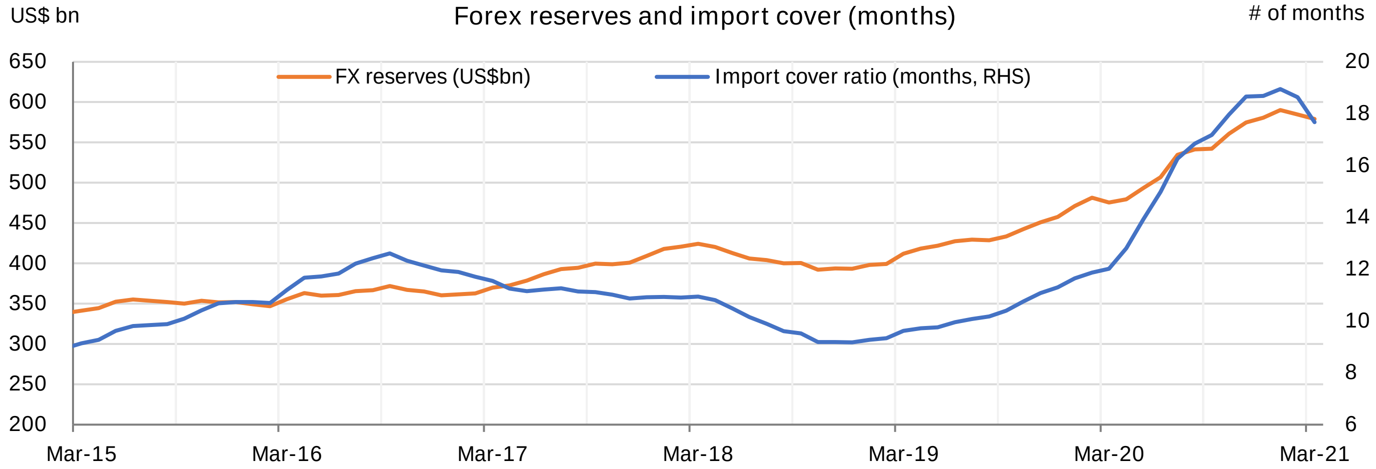
Figure 6: Current account surplus pegged at 1.1% of GDP in FY21; expect deficit of 0.7% of GDP in FY22

A significant contraction in trade deficit in FY21 is expected to translate into a current account surplus of 1.1% of GDP in FY21—the first surplus in 17 years, vs. a deficit of 0.9% of GDP in FY20. In FY22, we expect current account to slip into deficit again, with our estimate pegged at 0.7% of GDP, even as expectations of sustenance of foreign investments is likely to keep BoP in a comfortable surplus position for the third year in a row.



Source: Refinitiv Datastream, NSE

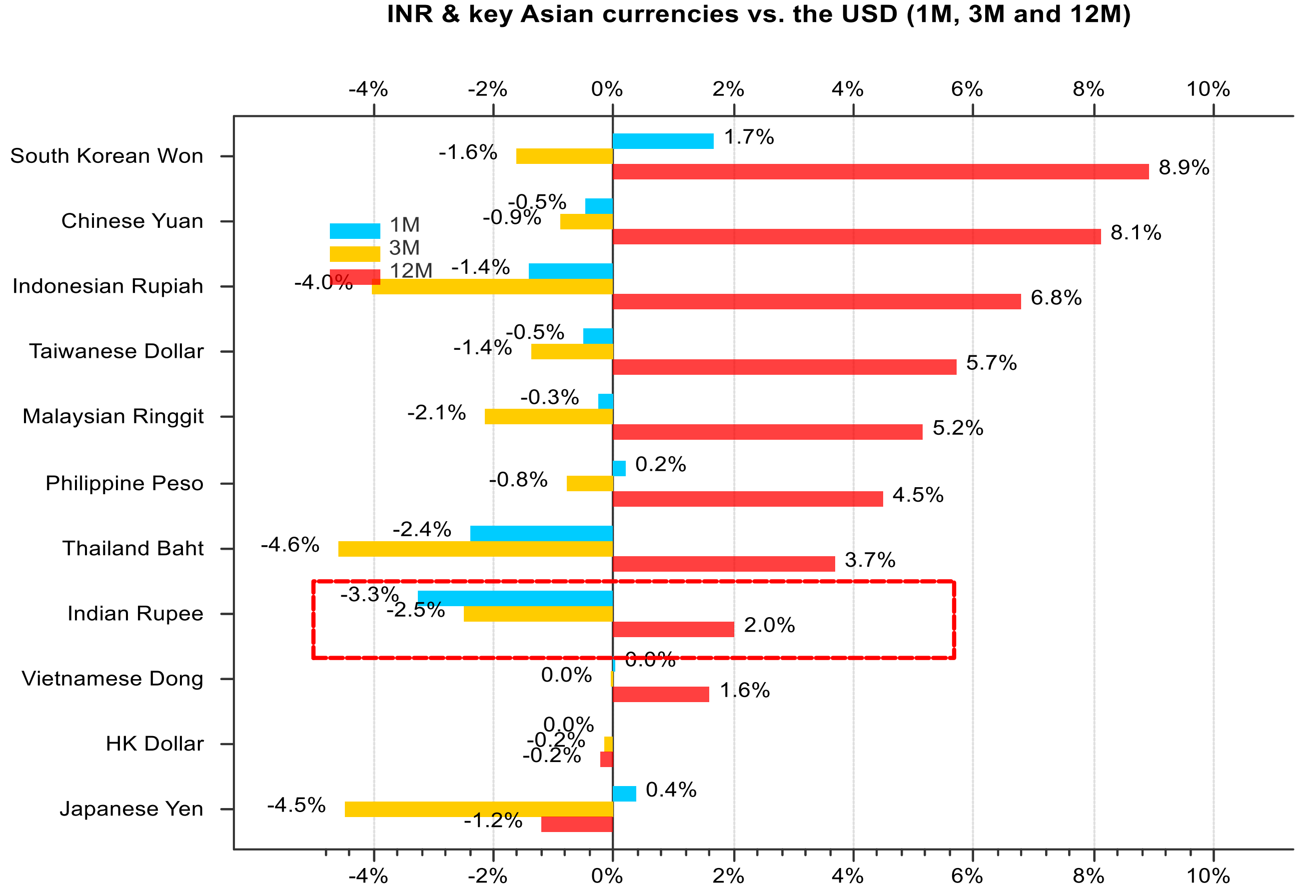
Figure 7: Forex reserves at more-than-adequate levels, leading to a comfortable import cover



Source: CMIE Economic Outlook, NSE.

Figure 8: INR vs. other key Asian market currencies

EM currencies have remained under pressure over the last couple of months in the wake of hardening oil prices, escalating US bond yields and a stronger US macroeconomic landscape translating into dollar rally. The INR has been no different, having witnessed significant volatility over the last few weeks, turning from being one of the best EM currencies in Q4FY21 to the worst in April.



Source: Refinitiv Datastream.

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