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Chart 1: Drivers of y/y change in trade balance (\$mn)

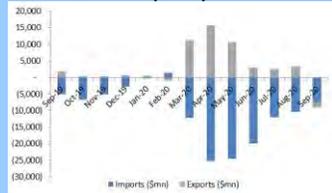


Chart 2: Imports, exports and trade balance (\$mn)

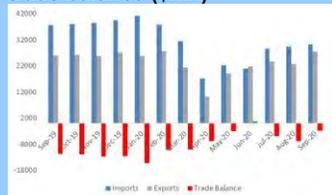


Chart 3: Share of oil & non-oil deficits in trade deficit (\$mn)

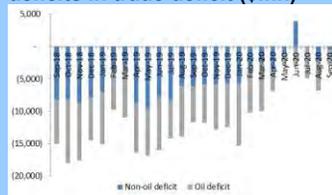
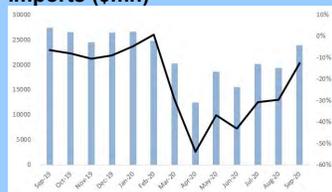


Chart 4: Non-oil non-gold imports (\$mn)



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INDIA

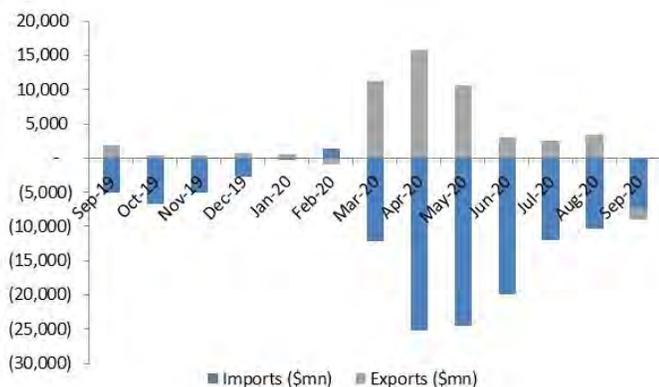


Trade Monitor

Trade deficit falls to \$2.7bn in Sep'20

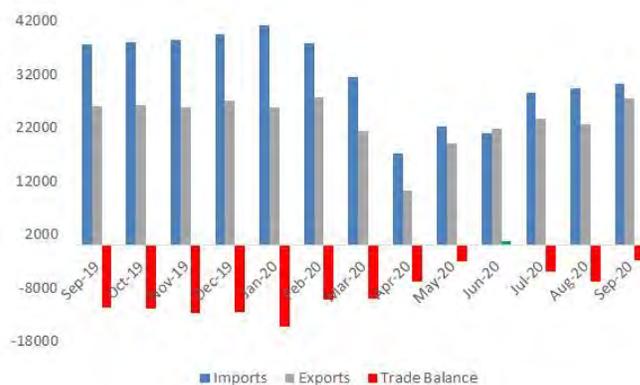
- Imports post double-digit contraction for 7th consecutive month:** India's imports posted 7th double-digit contraction in Sep '20 and 16th consecutive contraction barring one positive reading in Feb '20. Imports declined 20% y/y to \$30bn on top of a 12% contraction twelve months ago. During H1FY21, India's imports have contracted ~40% y/y. In Sep '20, the decline in imports was broad based – 22 out of 30 broad categories recorded contraction while only 8 categories of imports (such as agri products, electronic goods, pharma products) recorded positive growth.
- Exports post first positive growth since Mar '20:** Exports, on the other hand, showed early signs of revival. In Sep '20, exports grew 6% y/y to \$27.5bn. This is the first positive growth in exports since Mar '20 and highest y/y growth since Apr '19. Average exports growth during H1FY21 now stands at -21%. Showing a trend exactly opposite to imports, the increase in exports was broad based – 22 out of 30 export categories recorded positive growth while only 8 categories (such as gems & jewellery and marine products) recorded contraction.
- Trade deficit falls to \$2.7bn driven by lower exports, deficit ex-oil just \$508mn:** Trade deficit in Sep '20 came in at \$2.7bn, down from \$11.6bn in Sep '19 and \$6.7bn in Aug '20. Out of the \$8.9bn decline in trade deficit during Sep '20 and Sep '19, lower imports accounted for 82% while higher exports accounted for the remaining 17%. The break-up of trade deficit between oil and non-oil components shows that in Sep '20, non-oil deficit accounted for 19% of trade deficit while oil deficit accounted for the remaining 81%. This is sharply in contrast with long-term average of oil and non-oil deficit accounting for roughly 50% each in total trade deficit. If we exclude oil imports and exports, India's trade deficit in Sep '20 stands at just \$508mn.
- Labour-intensive exports show lower contraction of 10%:** Labour-intensive exports (leather, gems & jewellery, textiles) posted 11th consecutive contraction, recording -10% growth in Sep '20. While textiles (10.3% growth in Sep '20) and leather (-3% growth in Sep '20) showed early signs of stabilization, sharp decline in gems and jewellery exports continued dragging headline growth down. Given the discretionary and 'luxury' nature of these goods, we do not expect meaningful pick-up in gems and jewellery exports in the near future.
- Non-oil non-gold imports contract albeit at lower rate:** Non-oil non-gold imports (NONG), which indicate health of domestic economy, contracted albeit at lower rate. NONG imports contracted 13% in Sep '20 up from -30% contraction in the preceding months. During the peak of lockdown, NONG imports had contracted -45% y/y.
- Capital goods imports decline 38% y/y, paint bleak outlook for future domestic investment activity:** Capital goods imports (machinery, transport, project goods) contracted 38% y/y in Sep '20, posting 7th consecutive double-digit contraction. This indicates domestic investment activity in the coming months is likely to remain weak.
- Gold imports record steep fall; demand could increase ahead of the festive season:** Gold imports fell to \$601mn in Sep '20, sharply down from \$3.7bn in Aug '20 and \$1.3bn in Sep '19. However, we expect gold imports to gain some traction in the coming months due to the approaching festive and wedding season.

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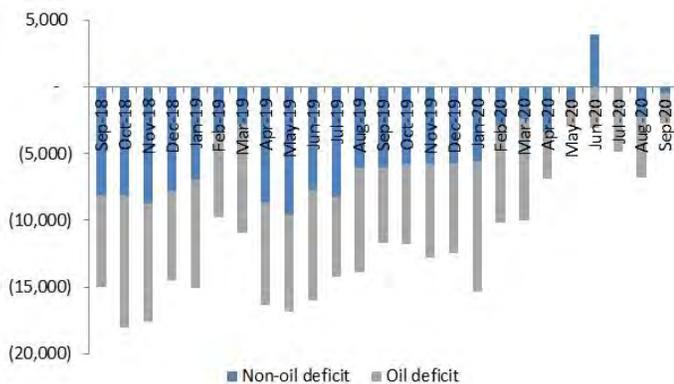
Source: CEIC, I-Sec Research

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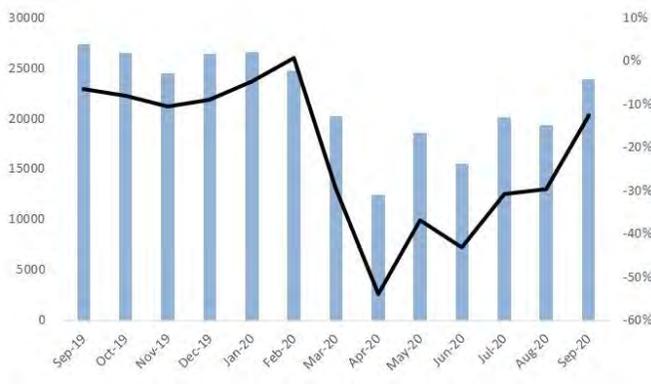
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Chart 3: Share of oil & non-oil deficits in trade deficit (\$mn)



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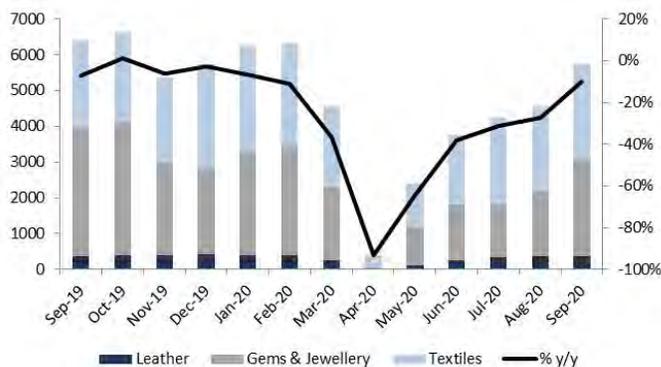
Source: CEIC, I-Sec Research

Chart 5: Capital Goods imports (\$mn)



Source: CEIC, I-Sec Research

Chart 6: Labour intensive exports (\$mn)



Source: CEIC, I-Sec Research

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