

Merchandise Trade

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Oil bill widens the deficit to a historic high

- The Sep'21 trade deficit jumped to a historic high of USD22.94bn from USD13.87bn in Aug'21, led by a 50% MoM gain in oil imports. Non-oil non-gold (NONG) imports also surged 18% (highest since May'20 after Covid-19). Gold imports lost sheen, while imports of electronic goods, machinery, and vegetable oils saw a sharp sequential increase. Exports remained flat MoM.
- For YTD FY22 (Apr-Sep'21), the trade deficit stood at USD78.8bn, slightly lower than pre-pandemic levels of USD88.9bn for the same period in FY20. Compared with pre-pandemic levels (YTD FY20), imports are now higher by 11.5% in YTD FY22, while exports are higher by 23.84%.
- Going ahead, we see a gradual recovery and elevated commodity prices pressurizing the import bill. We expect import growth exceeding export growth, while higher losses in oil-led terms of trade imply that the current account-to-GDP will be back to a deficit in FY22. With our revised Brent forecast of USD71.5/bbl, our FY22 CAD/GDP estimate is 1.1%, up from ~0.85% earlier. However, healthy capital flows will ensure that FY22E BoP remains in a surplus of USD48bn. We see USD-INR in the 73.00-75.50 range in the near term.

Trade deficit widens to highs of USD22.94bn in Sep'21

As per the prelim estimates, the merchandise trade deficit widened sharply to USD22.94bn in Sep'21 from USD13.81bn in the previous month, due to a surge in imports – mainly oil, but even NONG imports also contributed. The last time such a large increase was seen in NONG imports was in May'20 after the first Covid wave. Sequentially, imports surged 19.7% MoM but exports remained flat (0.5% MoM). On an annualized basis, exports and imports grew 21.3% and 84.7%, respectively. Against Sep'19, exports grew 28.5% and imports grew 49.6%. For YTD FY22, exports and imports clocked strong performance, growing by 56.9% (USD197.1bn) and 82.4% (USD275.9bn) YoY, respectively.

Exports healthy on global demand, led by engineering goods and petroleum products

Exports stood at USD33.4bn in Sep'21, up 21.4% YoY, underscoring strong external demand. However, they remained flat sequentially (0.5% MoM). Non-oil exports rose 18.7% YoY (26.3% from Sep'19) to USD28.5bn, reflecting decent global demand. Sequentially, non-oil exports witnessed a mild contraction of 0.4% MoM. Commodity groups constituting 60% of exports, grew by Engineering goods (36.7%), petroleum products (39.3%), organic chemicals (29.6%), gems & jewelry (19.7%), while pharma, which drove growth during the pandemic, witnessed a decline of 8.5% on YoY basis.

Uptick in imports led by Oil, but core imports show massive gains sequentially

Imports jumped 84.7% YoY in Sep'21 even as the base normalized. Imports were higher than the Sep'19 levels by 50%, signifying the extent of normalization from the pre-pandemic levels. Sequential momentum in imports was strong at 19.7% MoM, mainly driven by oil imports (49.6% MoM and massive 199% YoY). The jump in oil imports reflects both higher crude oil prices and volumes. Gold imports grew at an exorbitant rate of 751% YoY but sequentially lost momentum by 24% MoM. NONG imports grew by a whopping 40.5% YoY (23.8% from Sep'19) and picked up pace on a sequential basis (18% MoM). The gain in NONG was led by electronic goods (17.3% YoY, 16.4% MoM), machinery (42% YoY, 9.6% MoM) and vegetable oils (134% YoY, 50% MoM).

FY22 current account/GDP to reverse to deficit of 1.1% amid normalization and oil effect

After the hit to domestic demand post Covid-II, growth seems to have normalized Q2FY22 onwards, aided by tailwinds of smart global recovery and steady vaccination progress. New global headwinds and persistent supply constraints could, however, dent the cyclical global recovery. We revise our FY22 CAD/GDP estimate higher by 0.3ppt to ~1.1% (USD35bn), assuming Brent at USD71.5/bbl vs. USD66/bbl earlier. We see import growth exceeding export growth, with high losses in oil-led (and high commodities in general) terms of trade implying that the current account-to-GDP will return to a deficit of ~1.1% from a surplus of 0.9% in FY21. We estimate that a USD10/bbl rise in crude oil prices increases India's CAD by ~USD9bn. Though, healthy capital flows will ensure FY22E BoP surplus of USD48bn (USD87.3bn FY21).

Positive BoP dynamics and RBI's war chest of FX reserves should ideally help keep a mild upward bias on INR. However, global headwinds and tighter global financial conditions may imply that FPIs ask for a higher EM risk premium, which could pressure EM assets, including India. We note that India's real rates have been negative and among the lowest in the EM space. Besides, the continued tactical intervention by the RBI will ensure INR remains somewhere in the middle of the EM in terms of spot returns. Overall, INR performance will be caught between mixed external terms of trade, gradually changing global risk environment and RBI's FX stance. We watch out for any potential news on India's inclusion in global bond indices, which could spur debt flows.

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty \(Page 3\)](#)

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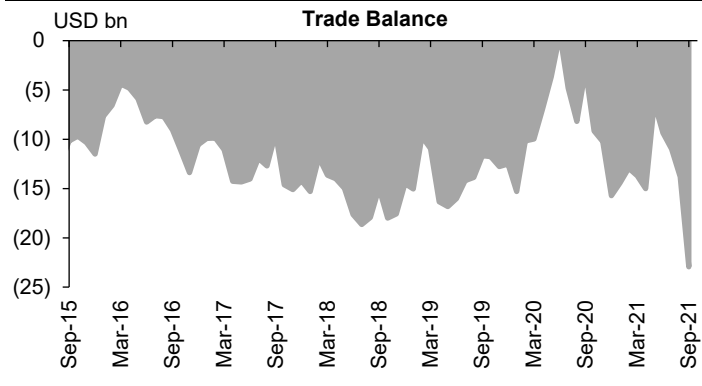
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Key Highlights

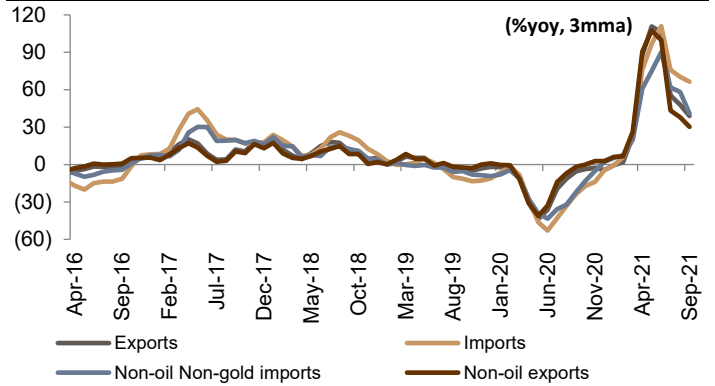
- Trade deficit widens to highs of USD22.94bn; Exports (ex-oil) and core imports grow 26% and 24% vs. 2019 levels, respectively.
- Gold imports slump 24% MoM to USD5.1bn.
- FY22 CAD/GDP likely to be at 1.1%; BoP to be in a surplus of ~USD48bn

Exhibit 1: Trade deficit widens further to USD22.94bn in Sep'21...



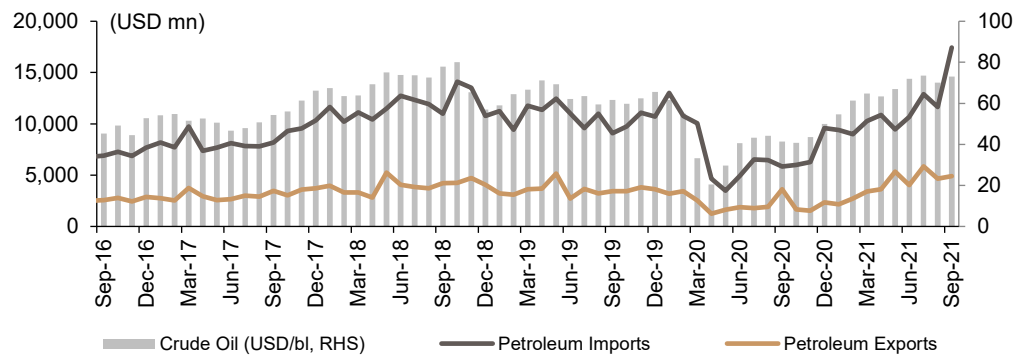
Source: Ministry of Commerce, Emkay Research

Exhibit 2: ... with continued normalization of exports and imports



Source: Ministry of Commerce, Emkay Research

Exhibit 3: Oil deficit spikes to USD12.5bn with higher oil imports in Sep'21



Source: PIB, Emkay Research

Exhibit 4: Component-wise trends in merchandise trade in FY21

	vs Sep-19	YoY%											
		Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20
Exports	28.5	21.3	45.8	49.8	47.9	68.2	202.5	61.5	(0.5)	6.2	0.1	(8.6)	(4.7)
Oil	42.9	35.9	144.6	231.0	115.4	227.3	191.5	35.5	(20.9)	(32.1)	(35.4)	(59.7)	(52.0)
Non-oil	26.3	19.1	36.8	35.2	41.6	53.5	204.0	65.0	2.4	11.6	5.6	0.3	2.5
Imports	49.6	84.7	51.8	63.0	96.4	68.7	167.8	53.8	7.0	2.0	7.6	(13.3)	(11.5)
Oil	96.6	199.0	80.6	97.4	114.9	164.9	133.8	2.2	(16.2)	(27.7)	(10.6)	(43.4)	(38.5)
Gold	301.1	750.6	82.5	135.6	59.3	790.0	n.a	591.7	124.0	154.7	81.8	2.6	35.9
Non-oil, Non Gold	23.8	40.5	37.3	45.4	92.0	48.0	130.4	46.8	5.9	7.5	8.0	(1.7)	(4.9)
Capital goods	n.a	na	(2.4)	29.2	83.8	36.5	n.a	1,090.1	(1,179.9)	(13.6)	(14.1)	(17.3)	(32.5)
Electronic Goods	21.3	17.2	25.4	10.7	45.2	47.3	214.2	77.0	37.7	17.4	20.9	12.3	16.1
Trade balance (USD bn)	n.a	(22.9)	(13.8)	(11.0)	(9.4)	(6.3)	(15.0)	(13.7)	(12.9)	(14.5)	(15.4)	(9.9)	(8.6)

Source: Ministry of Commerce, CEIC, Emkay Research

Exhibit 5: Major commodities groups contributing to trade in Sep'21

USD Mn	Commodity	Value	Share of Total (%)	YoY %
Export	Engineering Goods	9,427	28.2	36.7
	Petroleum Products	4,914	14.7	39.3
	Gems and Jewellery	3,235	9.7	19.7
	Organic & Inorganic Chemicals	2,377	7.1	29.6
	Drugs & Pharmaceuticals	2,053	6.1	(8.5)
Import	Petroleum, Crude & Products	17,436	30.9	199.3
	Electronic Goods	6,888	12.2	17.3
	Gold	5,116	9.1	750.6
	Machinery, electrical & non-electrical	3,198	5.7	42.0
	Pearls, precious and Semi-precious stones	2,572	4.6	23.2

Source: PIB, Emkay Research

Emkay Alpha Portfolio – Nifty

EAP-Nifty (45 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
Agri Input & Chemicals	0.51	0.00	-100%	-51
UPL	0.51	0.00	-100%	-51
Auto & Auto Ancillaries	4.71	7.71	64%	300
Bajaj Auto	0.65	0.65	0%	0
Eicher Motors	0.51	0.51	0%	0
Hero Motocorp	0.48	0.98	104%	50
Mahindra & Mahindra	1.01	1.01	0%	0
Maruti Suzuki India	1.28	1.78	39%	50
Motherson Sumi	0.00	1.00	NA	100
Tata Motors	0.78	1.78	128%	100
BFSI-Banks	25.08	28.08	12%	300
Axis Bank	2.58	2.58	0%	0
Bandhan Bank	0.00	0.00	NA	0
HDFC Bank	9.13	9.63	5%	50
ICICI Bank	6.36	6.86	8%	50
Indusind Bank	0.88	1.88	114%	100
Kotak Mahindra Bank	3.85	3.85	0%	0
State Bank of India	2.27	3.27	44%	100
BFSI-Insurance	1.58	2.08	32%	50
HDFC Life Insurance	0.88	1.38	57%	50
SBI Life	0.70	0.70	0%	0
BFSI-NBFCs	10.58	9.67	-9%	-91
Bajaj Finserv	1.41	0.00	-100%	-141
Bajaj Finance	2.66	1.66	-38%	-100
Cholamandalam Investment	0.00	0.50	NA	50
HDFC	6.50	7.00	8%	50
Shriram Transport Finance	0.00	0.50	NA	50
Cement & Building Materials	2.46	2.96	20%	50
Grasim Industries	0.83	0.83	0%	0
Shree Cements	0.50	0.50	0%	0
Ultratech Cement	1.12	1.62	45%	50
Consumer Goods & Retail	11.11	4.70	-58%	-640
Asian Paints	1.91	0.91	-52%	-100
Britannia Industries	0.61	1.11	82%	50
Hindustan Unilever	3.16	0.00	-100%	-316
ITC	2.70	0.00	-100%	-270
Marico	0.00	0.50	NA	50
Nestle India	0.91	0.00	-100%	-91
Titan Company	1.18	1.68	42%	50
Tata Consumer	0.64	0.00	-100%	-64
United Breweries	0.00	0.50	NA	50
Engineering & Capital Goods	2.69	3.19	19%	50
Larsen & Toubro	2.69	3.19	19%	50
Information Technology	17.41	16.68	-4%	-73
HCL Tech	1.82	2.32	28%	50
Infosys	8.13	8.63	6%	50
TCS	5.12	3.62	-29%	-150
Tech Mahindra	1.12	2.12	89%	100
Wipro	1.23	0.00	-100%	-123
Metals & Mining	3.63	4.12	14%	49
Coal India	0.51	0.00	-100%	-51
Hindalco	0.93	1.43	54%	50
JSW Steel	0.87	0.87	0%	0
Tata Steel	1.32	1.32	38%	50
Oil & Gas	12.30	12.62	3%	32
BPCL	0.54	1.04	93%	50
Indian Oil	0.42	0.42	0%	0
ONGC	0.69	1.69	145%	100
Reliance Industries	10.66	9.48	-11%	-118
Pharmaceuticals	3.39	3.59	6%	20
Cipla	0.65	1.15	0%	0
Divi's Lab	0.80	0.00	-100%	-80
Dr. Reddy's Lab	0.78	1.28	64%	50
Sun Pharma	1.16	1.66	43%	50
Ports & Logistics	0.71	0.00	-100%	-71
Adani Ports	0.71	0.00	-100%	-71
Power	1.73	2.48	43%	75
NTPC	0.88	1.38	57%	50
Power Grid Corporation	0.85	1.10	29%	25
Telecommunications	2.13	2.13	0%	0
Bharti Airtel	2.13	2.13	0%	0
Cash		0.00		
Nifty	100.00	100.00		

Source: Emkay Research

Sector portfolio NAV

	Base					Latest
	1-Apr-19	1-Oct-20	1-Apr-21	30-Jun-21	31-Aug-21	30-Sep-21
EAP - Nifty	100.0	92.7	122.9	131.4	141.2	145.8
Nifty50	100.0	97.8	127.4	134.7	146.8	151.0

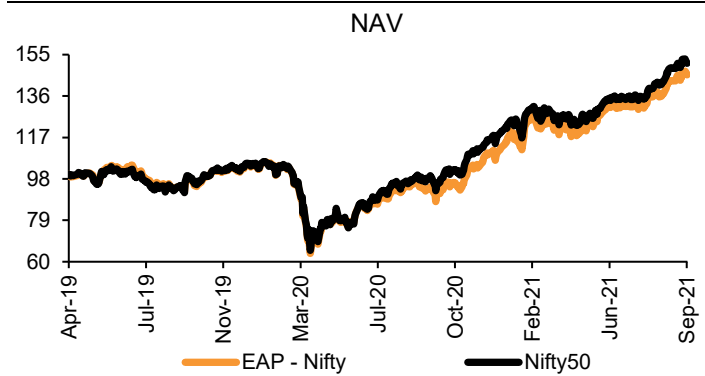
*Performance measurement base date 1st April 2019

Source: Emkay Research

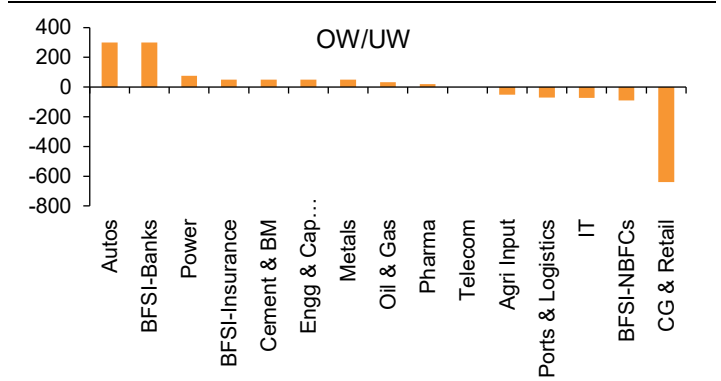
Price Performance (%)

	1m	3m	6m	12m
EAP - Nifty	3.2%	11.0%	18.6%	57.3%
Nifty50	2.8%	12.1%	18.5%	54.3%

Source: Emkay Research

NAV chart

Source: Emkay Research

Sector OW/UW in the revised Nifty EAP

Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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BUY	Over 15%
HOLD	Between -5% to 15%
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