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Sept Trade: Deficit Remains Near ~US\$10bn but Export Growth Slows to a three year low

- **Current trends in trade:** Exports in Sept rose 10.4% YoY to US\$13.7bn while imports rose 43.3% YoY to US\$24.5bn resulting in the trade deficit coming at US\$10.7bn, similar to trends seen earlier this fiscal. While one month's data is too little to determine a trend, a point worth noting is that the 10% export growth seen in Sept was the lowest level seen since Nov05.
- **Maintain our FY09 estimates:** During Apr-Sept, exports at US\$95bn were up 30.9% while imports at US\$155bn rose 38.6% resulting in the trade deficit widening to US\$60bn v/s US\$39bn last year. These are in line with our full year estimates where we expect a widening of the customs trade deficit (*excluding defence imports*) to US\$111.6bn v/s US\$80.3bn in FY08.
- **Going Forward for FY10:** We expect India's trade deficit to remain around the US\$110levels (*see pg 2 for detailed BoP*). This incorporates lower oil prices (Indian basket at 90) and the new discoveries which potentially results in savings of US\$18bn. At first glance the trade deficit remaining at current levels as compared to the current year appears conservative given that oil is trading at sub 70levels. (*Every \$1/bbl change in oil prices reduces the net import bill by 700mn*). However, the buffer from lower oil prices could be offset by:
 - (1) Lower than expected export growth – our current numbers assume a 60% rise in petro-product exports and sub 10% for non-oil exports
 - (2) The net savings from petro-product exports could reduce if refining margins decline – our numbers currently assume margins at US\$14/bbl.

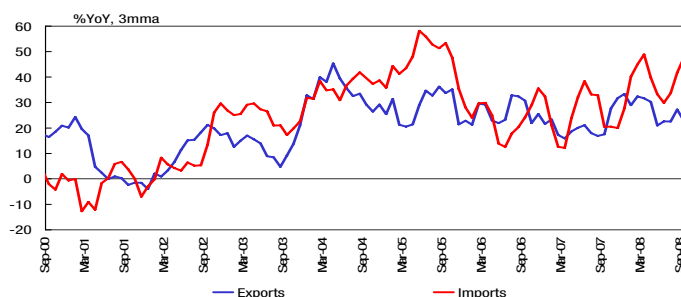
Note Released: 3-Nov-08

Trends in Trade (US\$bn, % YoY)

| | Sep-08 | YoY | Apr-Sep FY09 | Apr-Sep FY08 | YoY | FY09E | %YoY | FY10E | % YoY |
|---------------|--------|------|--------------|--------------|------|--------|------|--------|-------|
| Exports | 13.7 | 10.4 | 94.9 | 72.5 | 30.9 | 185.1 | 19.0 | 220.2 | 19.0 |
| Imports | 24.4 | 43.3 | 154.7 | 111.6 | 38.6 | 296.6 | 25.8 | 333.3 | 12.4 |
| Oil | 9.1 | 57.1 | 55.1 | 34.6 | 59.2 | 106.0 | 37.8 | 108.3 | 2.2 |
| Non-oil | 15.3 | 36.2 | 99.7 | 77.1 | 29.3 | 190.6 | 20.0 | 225 | 18.0 |
| Trade Balance | -10.7 | | -59.8 | -39.1 | 52.9 | -111.6 | | -113.1 | |

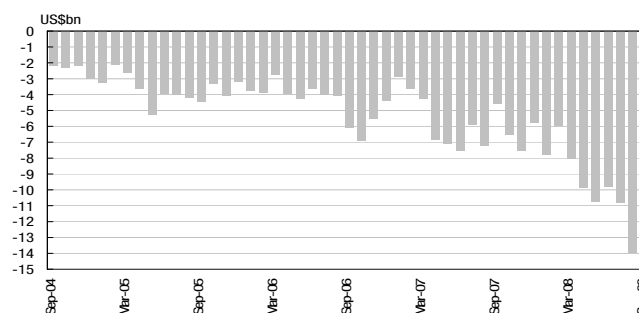
Source: DGCI&S, CEIC Data Company Limited.

Trends in Exports and Imports (% YoY, 3mma)



Source: DGCI&S

Trends in Trade Deficit (US\$bn)



Source: DGCI&S

Trends and Forecasts in the Balance of Payments (US\$Mn, %)

| US\$mn; %YoY | FY04 | FY05 | FY06 | FY07 | FY08 | FY09E | FY10E | COMMENTS |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|---|
| Exports (RBI) | 66,285 | 85,206 | 105,152 | 128,083 | 158,461 | 188,569 | 224,397 | Petro products to post 60% growth in FY10 and comprise one-fourth of India's total exports. Growth in non-oil exports to slow to 10% from 16% levels estimated earlier |
| Y/Y % | 23.3 | 28.5 | 23.4 | 21.8 | 23.7 | 19.0 | 19.0 | |
| % of GDP | 11.0 | 12.2 | 13.0 | 13.9 | 13.5 | 15.7 | 16.5 | |
| Imports (RBI) | 80,003 | 118,908 | 157,056 | 191,254 | 248,521 | 305,681 | 346,948 | |
| Y/Y % | 24.1 | 48.6 | 32.1 | 21.8 | 29.9 | 23.0 | 13.5 | |
| % to GDP | 13.3 | 17.0 | 19.4 | 20.7 | 21.2 | 25.5 | 25.5 | |
| Imports-Customs | 78,200 | 106,700 | 140,200 | 185,700 | 235,770 | 296,633 | 333,302 | |
| Y/Y % | 27.4 | 36.4 | 31.4 | 32.5 | 27.0 | 25.8 | 12.4 | |
| Of which: Oil | 20,600 | 29,900 | 43,800 | 56,900 | 76,900 | 105,989 | 108,342 | Incorporates WTI at US\$100/bbl for rest of FY09 and 90 for FY10 |
| Y/Y % | 16.5 | 45.1 | 46.5 | 29.9 | 35.1 | 37.8 | 2.2 | Factors higher oil imports due to Reliance Petro/Essar refineries |
| Non-Oil | 57,600 | 76,800 | 96,400 | 128,800 | 158,870 | 190,644 | 224,960 | |
| Y/Y % | 31.8 | 33.3 | 25.5 | 33.6 | 23.3 | 20.0 | 18.0 | |
| a. Trade balance (RBI) | -13,718 | -33,702 | -51,904 | -63,171 | -90,060 | -117,112 | -122,551 | Every US\$1/bbl change in oil prices impacts deficit by US\$700mn |
| % of GDP | -2.3 | -4.8 | -6.4 | -6.8 | -7.7 | -9.8 | -9.0 | |
| Trade Balance (Customs) | -14,357 | -26,000 | -39,600 | -59,300 | -80,258 | -111,574 | -113,082 | |
| Difference | 639 | -7,702 | -12,304 | -3,871 | -9,802 | -5,538 | -9,469 | Diff bet RBI & customs= proxy for defense imports |
| b. Invisibles | 27,801 | 31,232 | 42,002 | 53,405 | 72,657 | 76,900 | 88,698 | |
| Non-factor services | 10,144 | 15,426 | 23,170 | 31,810 | 37,550 | 45,000 | 53,798 | |
| Of which: Software Services | 11,750 | 16,400 | 22,742 | 29,033 | 37,051 | 44,461 | 49,797 | Assumes 10-12% growth v/s 27%-30% seen earlier |
| Investment income | -4,505 | -4,979 | -5,855 | -6,573 | -5,910 | -5,500 | -5,500 | |
| Remittances* | 21,608 | 20,525 | 24,493 | 27,941 | 40,778 | 37,000 | 40,000 | COULD VARY Depending on Invst Opportunities |
| Official transfers | 554 | 260 | 194 | 227 | 239 | 400 | 400 | |
| 1. Current a/c balance (a+b) | 14,083 | -2,470 | -9,902 | -9,766 | -17,403 | -40,212 | -33,853 | CAD to remain over 2% in FY10 as downside in oil prices could be offset by lower exports |
| % of GDP | 2.3 | -0.4 | -1.2 | -1.1 | -1.5 | -3.4 | -2.5 | |
| c. Loans | -4,364 | 10,909 | 7,909 | 24,534 | 41,962 | 15,000 | 13,000 | |
| External assistance | -2,858 | 1,923 | 1,702 | 1,767 | 2,114 | 1,000 | 1,000 | |
| Commercial borrowings | -2,925 | 5,194 | 2,508 | 16,155 | 22,165 | 7,000 | 6,000 | UPSIDE if RBI liberalizes norms further |
| Short-term credit | 1,419 | 3,792 | 3,699 | 6,612 | 17,683 | 7,000 | 6,000 | |
| d. FDI (Net = a-b) | 2,388 | 3,713 | 3,034 | 8,479 | 15,545 | 16,000 | 16,000 | |
| (a) FDI - To India | 4,322 | 5,987 | 8,901 | 21,991 | 32,327 | 32,000 | 34,000 | |
| (b) FDI - Abroad | -1,934 | -2,274 | -5,867 | -13,512 | -16,782 | -16,000 | -18,000 | |
| e. Portfolio Inv (FII/GDR) | 11,356 | 9,287 | 12,494 | 7,062 | 29,261 | -12,000 | 5,000 | DOWNSIDE Risk if global environment worsens |
| f. Banking Capital | 6,033 | 3,874 | 1,373 | 1,913 | 11,757 | 6,500 | 8,500 | |
| Commercial Banks (Net) | 2,391 | 4,838 | -1,416 | -2,408 | 11,578 | 4,000 | 4,000 | |
| NRI deposits | 3,642 | -964 | 2,789 | 4,321 | 179 | 2,500 | 4,500 | UPSIDE if RBI makes NRI deposits more attractive |
| g. Rupee debt service | -376 | -417 | -572 | -162 | -121 | -400 | -400 | |
| h. Other capital** | 1,699 | 656 | 1,232 | 3,953 | 9,627 | 1,000 | 1,000 | |
| 2.Capital a/c (c+d+e+f+g+h) | 16,736 | 28,022 | 25,470 | 45,779 | 108,031 | 26,100 | 43,100 | |
| Errors & Omissions | 602 | 607 | -516 | 593 | 1,536 | 0 | 0 | |
| Overall balance (1+2) | 31,421 | 26,159 | 15,052 | 36,606 | 92,164 | -14,112 | 9,247 | |
| Forex | | | | | | | | |
| Forex assets | 106.1 | 135.1 | 145.1 | 191.9 | 299.1 | 285.0 | 294.3 | FX Assets@ US\$258bn are a strong cushion |
| FCA to months of imports | 15.9 | 13.6 | 11.1 | 12.0 | 13.5 | 11.2 | 10.2 | |
| Exchange Rates | | | | | | | | |
| Rs/US\$ (annual avg) | 45.9 | 45.0 | 44.3 | 45.2 | 40.2 | 45.5 | 45.0 | |
| % change | -5.0 | -2.0 | -1.6 | 2.0 | -11.1 | 13.2 | -1.1 | |
| Rs/US\$ (year end) | 43.6 | 43.8 | 44.6 | 43.6 | 40.1 | 47.0 | 45.0 | |
| % change | -8.2 | 0.3 | 2.0 | -2.3 | -8.0 | 17.2 | -4.3 | |

* Remittances - 50% are for family maintenance; balance is local withdrawal from NRI rupee deposits ** other capital refers to leads and lags in exports, advances received pending issue of shares, funds held abroad Source: RBI; Citi Estimate*Includes US\$4.1bn of the Resurgent Bond Issue repaid in September 2003 and repayment of India Millennium Bonds in FY06. ** Includes delayed export receipts, advance payments against imports. Source: RBI, Citi estimates

Disclosure Appendix

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