

EXTERNAL TRADE

Trade deficit worsens beyond USD 11 bn

July 1, 2010

■ Trade balance deteriorates ...

In May, India's trade deficit widened to USD 11.3 bn, the highest level since November 2008 and significantly higher than an average of ~USD 9 bn in the past 12 months. This is the second consecutive month of widening in the deficit. Lower exports and higher oil imports against the previous month contributed to the higher deficit number, despite relatively lower non-oil imports.

In the first two months of FY11, trade deficit widened to ~USD 22 bn, much higher than USD 14.5 bn in the corresponding period last fiscal. In 2008, we had a similar level of trade deficit. However, at that time, crude oil price (which was running over USD 100/barrel) was the primary driving factor even though exports were quite healthy. This time, contribution to higher deficit is more from a drop in exports rather than large oil import bills.

Table 1: India's merchandise trade

(USD bn)	May-09	Apr-10	May-10	April-May	
				FY10	FY11
Imports	19.8	27.3	27.4	38.8	54.7
Oil imports	5.3	8.1	8.8	10.0	16.9
Non-oil imports	14.5	19.2	18.6	28.8	37.8
Exports	12.0	16.9	16.1	24.3	33.0
Trade balance	(7.9)	(10.4)	(11.3)	(14.5)	(21.7)

Source: Ministry of Commerce, CMIE

■ ... amidst fall in exports and non-oil imports

In April, exports stood at ~USD 16 bn, lower than previous two months but still higher than the average of ~USD 15 bn in previous 12 months. Y-o-Y, exports grew ~35%, partly due favourable base effect. The relative weakness in exports in May could be explained by the fresh bout of global uncertainty since mid-April and sustained real appreciation in INR in FY10, which continued through April and May (as at mid-May 2010, the 6-currency REER appreciated ~18% Y-o-Y).

Imports came in at USD 27.4 bn in May, broadly in line with the previous couple of months. However, the underlying trend in imports in these recent months reveals that non-oil imports have been softening while slack has been picked up by rising oil imports (due to high and rising crude prices during February-April 2010). However, what is notable is that in the past two months both exports and non-oil imports have eased. This is possibly the result of fresh uncertainty in the global economy, which is hurting business and trade sentiments.

■ Headwinds from global environment getting stronger

As we highlighted in our previous notes, European problems and associated sharp movements in exchange rates have complicated the process of macroeconomic adjustments. Further, pre-mature focus on fiscal austerity (particularly in Europe) may hurt the economic recovery and, hence, business and trade sentiments. Global trade has surely recovered, but it remains far below its potential. Recent plunge in the Baltic Dry Index suggests some moderation in economic expectations.

Siddhartha Sanyal
 +91-22-4040 7505
 siddhartha.sanyal@edelcap.com

Kapil Gupta
 +91-22-4063 5406
 kapil.gupta@edelcap.com

India's dependence on foreign trade is relatively lower compared with its Asian peers, but not insignificant. More than 30% of India's exports are destined for the US and Europe, where fresh economic weakness is not ruled out. However, a natural partial hedge for India is that of global energy and commodity prices which may soften in case global uncertainty rises further.

Chart 1: Trade deficit widens

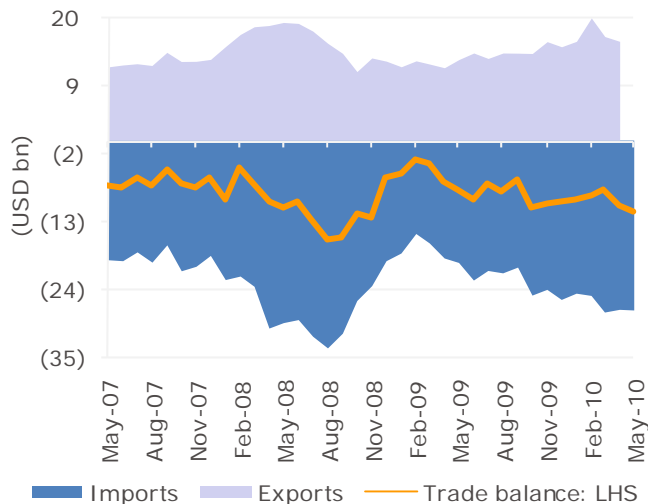
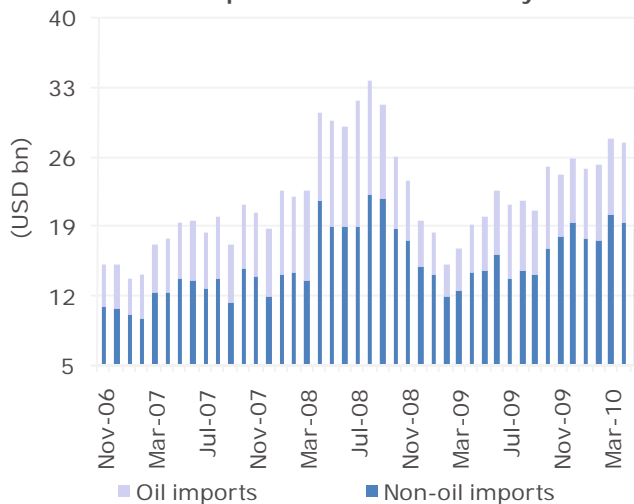


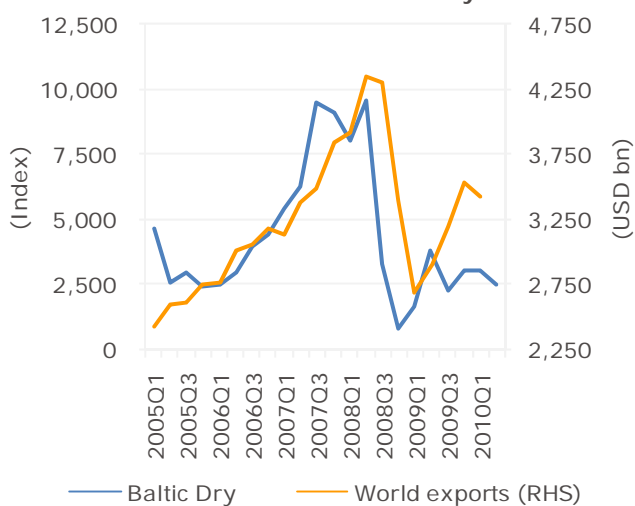
Chart 2: Non-oil imports have eased recently



Source: Ministry of Commerce

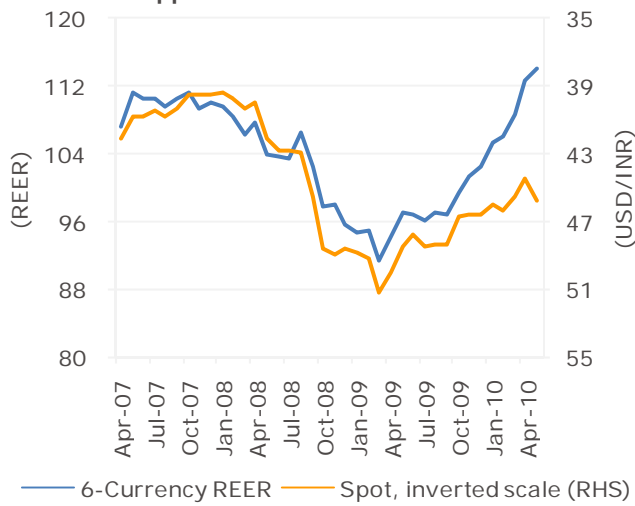
Note: Data reflects monthly numbers; imports are taken as negative figures in the above graph

Chart 3: Global Trade: fresh uncertainty?



Source: Bloomber/WTO

Chart 4: INR appreciated on real and nominal basis



Source: RBI/CMIE

Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021,
Board: (91-22) 2286 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Head Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

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