

Trade data broadly on track in October

- **Exports growth robust, posts double digit growth for four consecutive months**
- **Imports remain muted on weak domestic demand and government intervention in gold**
- **Trade deficit widens in October but broadly in line with our CAD forecast**
- **Outlook for Rupee: Dollar strength to weigh in the near term**

Exports growth robust, posts double digit growth for four consecutive months

Exports sector grew by 13.5% YoY in October as against 12.1% growth in September. This is the fourth consecutive month of double digit exports growth. The sharp improvement in exports sector performance partly reflects recovery in developed markets and partly the fact that a weaker rupee has increased competitiveness of Indian exports.

Though the sectoral breakup of exports sector performance is not available for the month of October, the data from September suggests that agriculture and related products, textiles, leather, handicrafts, engineering goods and chemical products have seen robust expansion in FY14 so far.

Imports remain muted on weak domestic demand and government intervention in gold

Imports contracted by 14.5% YoY in October compared to a decline of 18.1% in September. Within imports, gold and silver imports remain muted at USD1.4bn in October as against import of USD 0.8 bn in September. The lower gold imports during the festive season is encouraging and reflects the fact that government intervention to curb gold imports are bearing results. Meanwhile, crude imports came at 1.7%YoY higher at USD 15.21 bn in October as against USD14.95 bn in corresponding period last year.

Trade deficit widen in October but broadly in line with our CAD forecast

Though the trade deficit widened in October, this is broadly in line with our CAD expectation of USD 52 bn (~2.9% of the GDP) for FY2014. We believe that gradual improvement in exports along with weakness in imports would continue to support the outlook for India's current account deficit this year. (The CAD projections are detailed in the Appendix)

Outlook for Rupee: Dollar strength to weigh in the near term

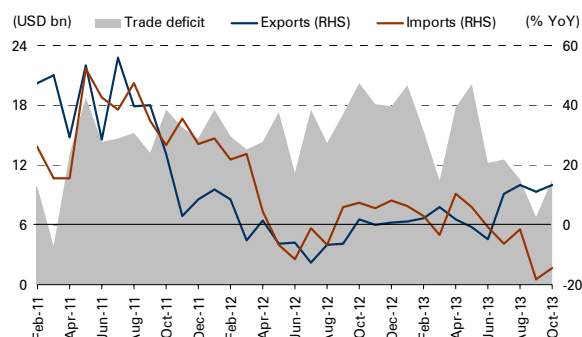
The fundamental outlook for INR is improving on narrowing CAD. However, in the immediate near term, we see some pressure on account of the following factors:

- **The recent Dollar strength:** In the last fortnight, the Dollar index has strengthened from 79.3 levels to 81.2 presently. The strength in Dollar primarily emulates the recent recovery in economic data from the US. The US GDP growth came in at 2.8% qoq (annualized) while the NFP data too surprised on the upside. This improvement raises the expectation of a Fed QE tapering in December as against previous expectation of March'2014.
- **Oil marketing companies coming back to the market:** The OMCs were borrowing their Dollar requirement directly from the RBI since August end and were out of markets. However, since last week, they have started returning back to the market. As per the market sources, ~30-40% of the OMCs dollar demand has returned. This is likely to increase Dollar demand in the system and weigh on Rupee outlook in the near term.

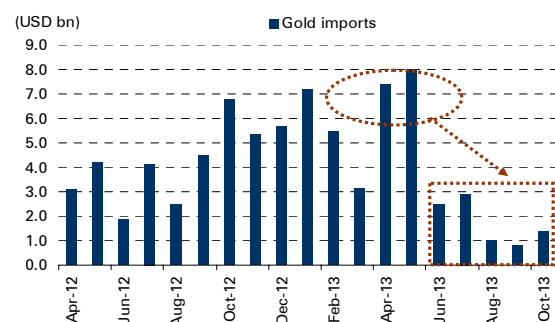
During the week, we expect Rupee to trade in the range of 63.0-63.75

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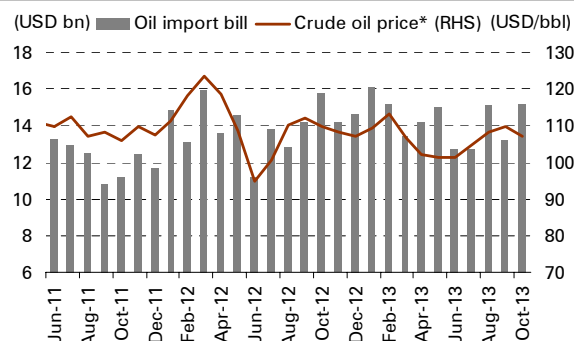
Exports growth stays robust



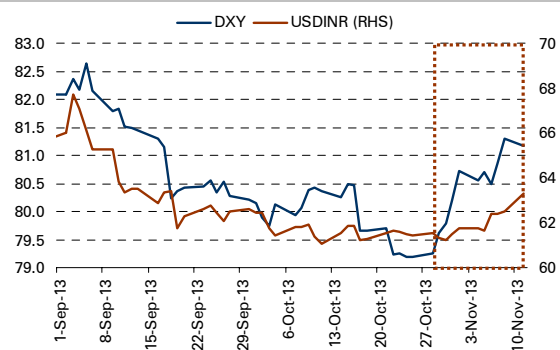
Gold imports down on government intervention



Oil imports rise in the month of October



Broad based Dollar strength weighs on INR



Appendix 1- BOP projection

Balance of Payment				
(USD bn)	FY2011	FY2012	FY2013	FY2014
Merchandise	-131	-190	-196	-168
- Exports	251	310	307	325
- Imports	381	500	502	493
Invisibles	85	112	108	116
- Services	49	64	65	68
- Transfers	53	64	64	70
- Income	-17	-16	-22	-22
Total Current Account	-46	-78	-88	-52
(% of GDP)	-2.7	-4.2	-4.8	-2.9
Foreign Investment	40	39	47	29
- FDI	9	22	20	25
- Portfolio Investment	30	17	27	4
Loans	28	19	31	30
Banking Capital	5	16	17	22
Other capital	-11	-7	-5	-5
Total Capital Account*	62	68	92	76
Overall BoP	13	-13	4	24

(* includes errors and omissions)

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