May trade data provided negative surprise while outlook is favourable

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Trade Deficit in May'24 widened much sharper than our expectations

- Merchandise Trade Deficit widened sharply in May'24 to $23.78 bn from $19.1 bn in Apr'24 led by oil and NONG sub-segments.
- The data provided a negative surprise vis-à-vis our estimate of a flat reading of $19bn.
- The key source of surprise was from oil deficit. While we expected oil trade deterioration on lagged impact of price spike in April to c.$90/bbl, however the quantum of impact surprised us as oil deficit spiked to unforeseen levels. Meanwhile, gold deficit saw marginal widening with festive (Akshaya Tritiya) impact limited as the demand was weighed down by record high gold prices.
- NONG deficit saw some widening on seasonal effects led by volatile segments like machinery along with metals and coal.

C/A Balance likely switched back to deficit in Apr-June qtr

- Services trade balance remained in surplus however it narrowed in the month of May'24 to $12.9 bn vis-à-vis $13.7 bn a month ago and way below the record high levels above $ 16 bn clocked in Dec'23 and Jan'24.
- Total trade deficit (goods and services combined) widened back to double digit levels last seen in Oct'23, to $10.90bn.
- As per our estimate, the current account (C/A) balance saw a seasonal switch back to a deficit in Q1-FY25 from a likely surplus in Q4-FY24.

Widening in trade deficit in May'24 majorly led by oil

- As noted above, we had estimated a widening in oil deficit in May'24 after it improved last month, in order to show lagged effect of oil price spike in April as contracts are typically signed in advance. However, the quantum of impact surprised us and probably was attributed to a spike in import volumes as well.
- As per media reports, oil import volumes were up 710,000 bpd to 5.26 mbpd from April's 4.55 mbpd; while average Brent crude price decreased to $83 per barrel from $89 per barrel in April. Additionally, a sharp rise in discounted oil imports from Russia to a 10-month high in May also helped. Going forward, we see correction in oil deficit as prices have stabilized at lower levels at c.$80/bbl.
- Gold deficit saw marginal deterioration in May by c.$1bn primarily on account of price effects. We estimate that gold import demand stayed flat vs April at c.40 tons, thereby signaling that near record price levels (avg $2357/oz in May) likely weighed on festive season (Akshaya Tritiya) demand. The retail demand was probably very weak, given that the gold deficit has stayed subdued despite strong central bank buying – as per media reports, RBI's gold demand during Jan-Apr'24 was 1.5x that for full year 2023. In the coming months, we see gold deficit staying subdued before festive season kicks in from end September.
- Non-oil non-gold (NONG) deficit also saw seasonal deterioration even as commodity prices corrected lower in May. The trade deterioration was primarily led by volatile sub-segments like machinery (38%), along with metals (30%) and coal (20%).

Our FY25 C/A deficit forecast remains at 0.9%; oil prices a key risk on watch

- For FY25, our forecast of 0.9% of GDP C/A deficit still remains in place however there is risk from higher commodity prices especially oil given our assumption of annual average oil price of $ 85/b. Oil price has cooled recently however any upsurge on geopolitical tensions may weigh on C/A deficit.
- Sensitivity of C/A deficit to oil prices stays high with every $10/b move in oil price affecting annual C/A balance by close to $15bn. Hence if oil prices settle at c.$ 95/b, C/A deficit may be closer to 1.5% of GDP in FY25.

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Fig.1: Current A/C balance Deficit Widened in May'24 *(in $ mn)*

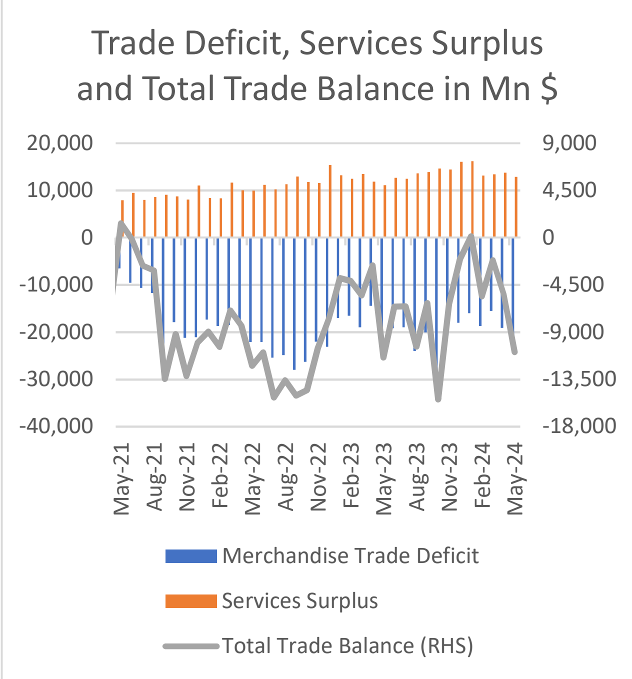

Fig.2: Imports saw a sharp spike even as exports inched up *(in $ mn)*

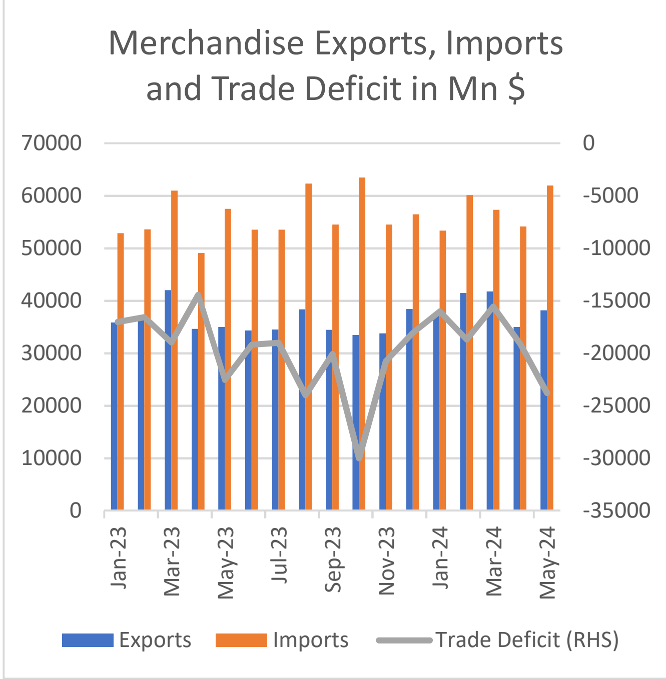

Fig.3: Broad-based trade deterioration led by record high oil deficit *(in $ mn)*

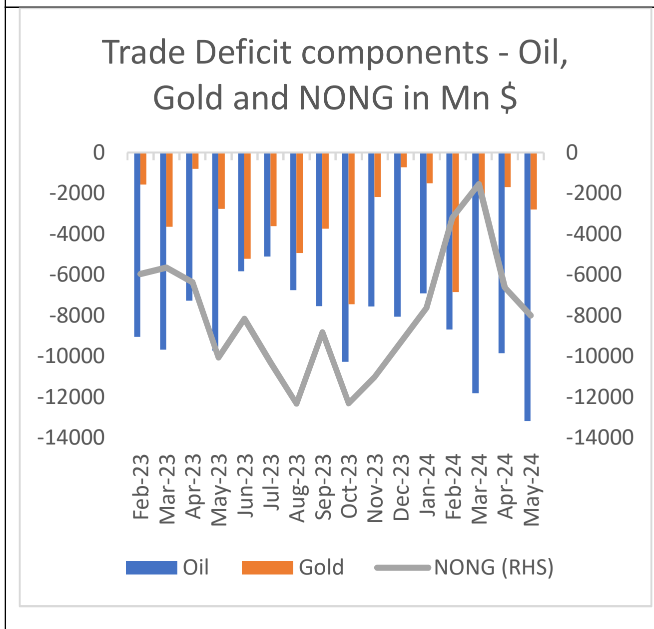

Fig.4: NONG deficit widened in May as negative seasonality kicks in *(monthly avg NONG Trade Balance in $ mn, Q1FY25 figure is for Apr & May'24)*

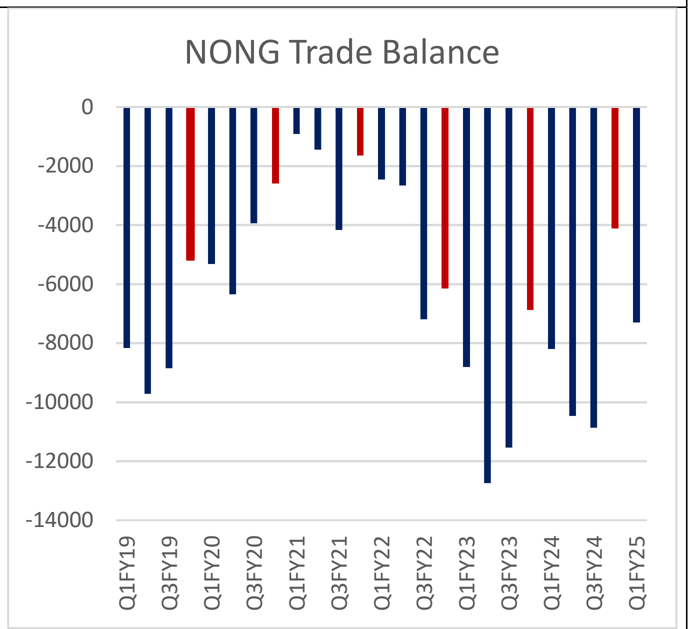

Fig.5: Data Table *(monthly average trade deficit)*

USD bn	Exports	Imports	Trade deficit	Oil deficit	Gold/ jewellery deficit	Non-Oil Non-Gold deficit
FY20	26.1	39.6	-13.5	*-7.4*	*-1.5*	*-4.5*
FY21	24.3	32.9	-8.6	*-4.7*	*-2.2*	*-2.3*
FY22	35.2	51.1	-15.9	*-7.9*	*-3.4*	*-4.6*
FY23	37.6	59.7	-22.1	*-9.3*	*-2.8*	*-10.0*
FY24	36.4	56.3	-19.9	*-8.0*	*-3.5*	*-8.4*
Apr-24	35.0	54.1	-19.1	*-9.8*	*-1.7*	*-6.6*
May-24	38.1	61.9	-23.8	*-13.2*	*-2.8*	*-8.0*

Source: CEIC and UBI Research

Oil deficit widened to unforeseen levels

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