

Trade Deficit widened in Apr'24, in line with our expectations

- Merchandise Trade Deficit widened in Apr'24 to \$19.1 bn from \$15.6 bn in Mar'24 led by elevated oil and NONG deficit. The widening in deficit was largely in line with our expectations however quantum of deficit came above our forecast (deficit of \$18 bn).
- This is largely attributed to higher than expected non-oil non-gold (NONG) deficit. NONG deficit widened as seasonality witnessed in the last quarter of FY24 phased out.
- Interestingly, oil deficit narrowed on sequential basis to just below double-digits levels. Meanwhile, gold deficit narrowed further as higher prices likely weighed on demand.

C/A Balance turned likely back into deficit in Apr'24

- Services trade balance remained in surplus however it narrowed in the month of April to \$12.6 bn vis-à-vis an average of \$13.2 bn in prior two months and way below the record high levels above \$ 16 bn clocked in Dec'23 and Jan'24.
- Total trade deficit (goods and services combined) almost trebled vs Mar'24 to \$6.5bn, highest levels since Nov'23.
- As per our estimate, the current account (C/A) balance adjusted for remittances and investment outflows swung back in deficit in the month of Apr'24 after likely slipping into surplus territory in the Jan-Mar'24 (first quarterly non-crisis surplus in 17 years).

Widening in trade deficit led by NONG sub-segment

- Gold imports deficit narrowed further on sequential basis in the month of April. After touching c.\$6.9bn in Feb'24, gold deficit fell to \$1.7bn in Apr'24. The drop was on the expected lines as further rise in gold prices (avg \$2335/oz in April vs \$2167/oz in Mar) weighed on demand which kept deficit in check. Also, fewer weddings and election-related restrictions likely impacted consumer demand which even off-set demand expected ahead of Akshaya Tritiya. As per our estimates, import volumes likely rose from c.20 tons in Mar'24 to c.40 tons in Apr'24 but uptick in exports likely kept deficit in check.
- Oil deficit narrowed slightly to below double-digit levels in Apr'24. This was in line with our expectations, as various media reports pointed towards a 8.0% m-o-m drop in oil import volumes in April while average Brent crude price increased to \$89 per barrel from \$84 per barrel in March. This led to rise in Russia's share in Indian crude oil imports to close to 40%.
- The narrowing in oil and gold deficit was more than offset by wider NONG deficit, as positive seasonality witnessed in the last quarter of FY24 faded.
- Most of the widening in NONG deficit was contributed by Chemicals (51%), Machinery (29%), Agri (16%). Meanwhile, coal and metals saw an improvement in trade balance.
- For Apr'24, merchandise trade narrowed to \$19.1bn from average monthly trade deficit of \$20bn witnessed in FY24. Going forward, widening in deficit due to phasing out of positive seasonality may be offset by the moderation in the commodity prices witnessed recently.

C/A deficit forecast remains at 0.9% for FY25; 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 likely swung back to Deficit in April (in \$ mn)

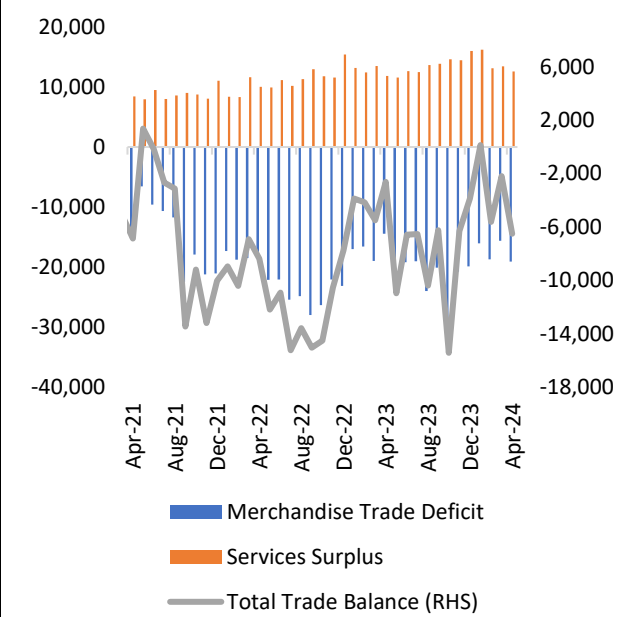


Fig. 2: Both exports and imports shrunk sequentially (in \$ mn)

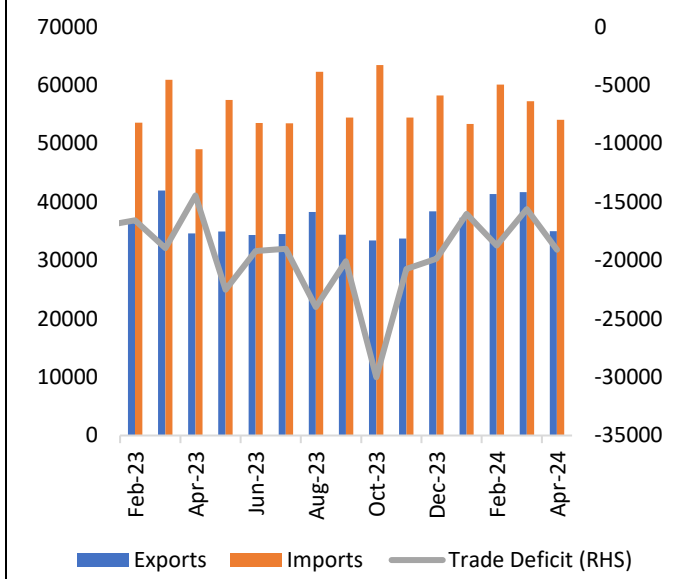


Fig. 3: Trade deficit widened due to NONG deficit; oil deficit dipped below double digits (in \$ mn)

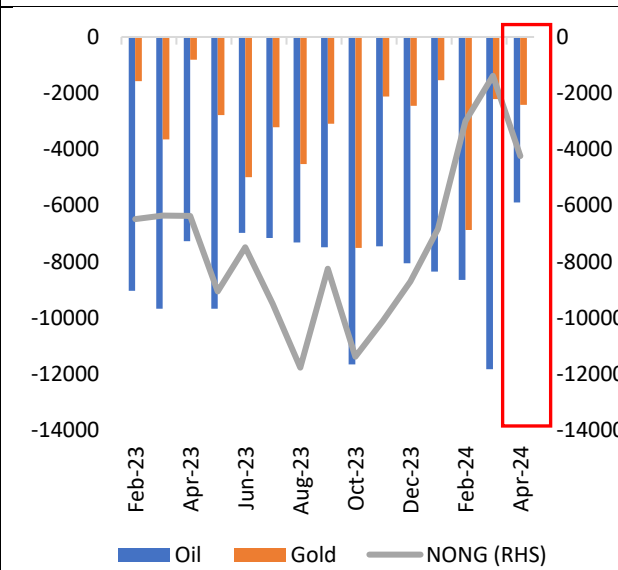


Fig. 4: Positive seasonality witnessed in NONG Trade deficit in Jan-Mar Quarter faded (monthly avg NONG Trade Balance in \$ mn, Q1FY25 figure is for April'24 only)

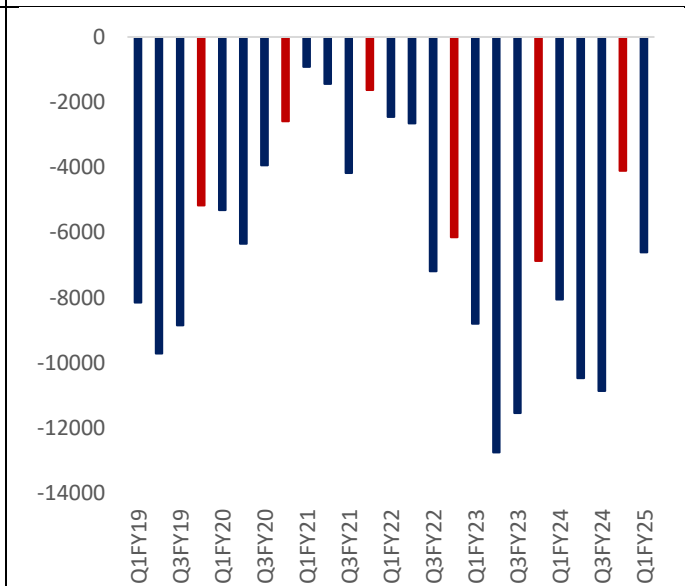


Fig. 5: Data Table (monthly average trade deficit)

USD bn	Exports	Imports	Oil Imports	Gold Imports	Trade deficit	Oil deficit	Gold/ jewellery deficit	Non-oil-non-gold deficit
FY20	26.1	39.6	10.9	4.5	-13.5	-7.4	-1.5	-4.5
FY21	24.3	32.9	6.9	4.0	-8.6	-4.7	-2.2	-2.3
FY22	35.2	51.1	13.5	6.7	-15.9	-7.9	-3.4	-4.6
FY23	37.6	59.7	17.5	5.9	-22.1	-9.3	-2.8	-10.0
FY24	36.4	56.4	15.0	7.0	-20.0	-8.0	-3.7	-8.4
Apr'24	35.0	54.1	16.5	4.9	-19.1	-9.8	-1.7	-6.6

Source - CEIC, Ministry of Commerce and UBI Research

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