11th March 2025

Fig 1: Quarterly trends in trade deficit shows positive seasonality in Q4

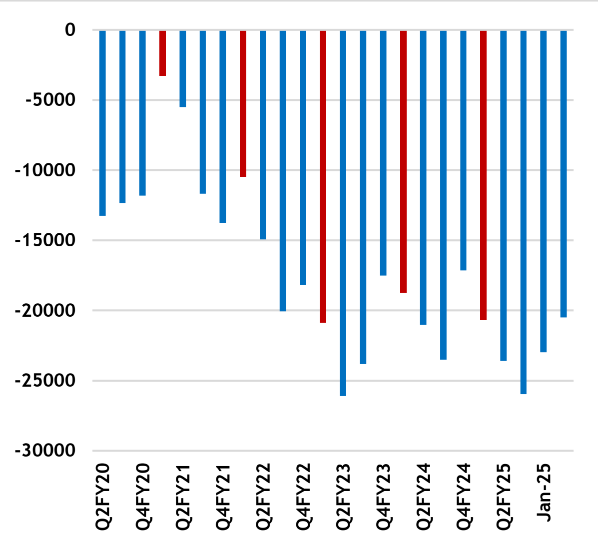


Fig 2: India’s gold demand remains steady in FY25 despite elevated prices

| India's Gold Imports | |
|---|---|
| Year | Gold Imports (In metric tonnes) |
| FY19 | 982.71 |
| FY20 | 719.93 |
| FY21 | 651.24 |
| FY22 | 879.05 |
| FY23 | 678.35 |
| FY24 | 795.32 |
| H1FY25 | 370.29 |
| H2TDFY25 | 254.74 |

*Source: CEIC, UBI research*


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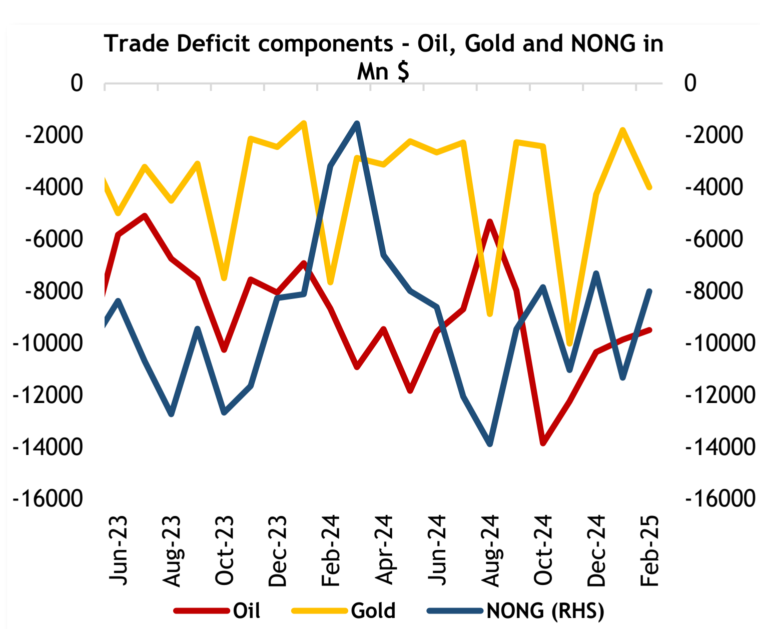
| Data release | Due date | Aug’24 | Sep’24 | Oct’24 | Nov’24 | Dec’24 | Jan’25 | Feb’25 (Proj.) |
|---|---|---|---|---|---|---|---|---|
| WPI (YoY %) | 17th Mar’25 | 1.31% | 1.84% | 2.36% | 1.89% | 2.37% | 2.31% | **2.0%** |
| Trade Balance (bln US$) | 17th Mar’25 | -28.09 | -19.69 | -24.13 | -31.83 | -21.94 | -22.99 | **-21.5** |

## Trade deficit likely narrowed in Feb’25

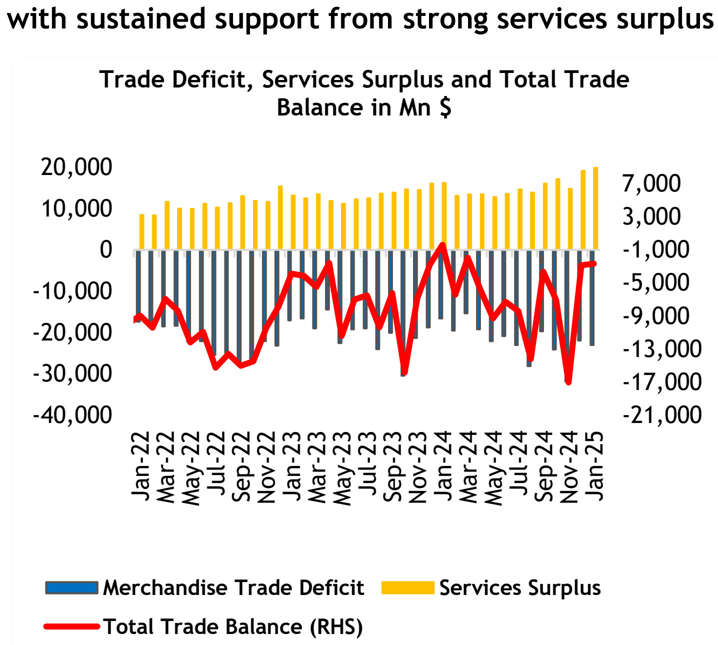
- **Merchandise trade deficit** likely narrowed in Feb’25 to $21.5 bln vis-à-vis $23.0 bln a month ago. This was probably led by moderation in the Non-Oil-Non-Gold (NONG) segment on positive seasonality during the quarter *(Fig 1)*. Meanwhile the extent of improvement in trade dynamics may be capped amid concerns of new trade restrictions and tariff increases, following the change in the US administration.
- **Oil deficit** likely narrowed amid fall in global Brent crude oil prices to $74.95/bbl vis-à-vis $78.35/bbl a month ago. As per market analytics firm Kpler (sourced from Reuters), India’s total crude oil imports in February came in at 4.82 million bpd, compared to 5 million bpd in January. The marginal decline could be attributed to February having lower number of days. Specifically, oil imports from Russia declined 14.5% m-o-m to 1.43 million bpd, the lowest since Jan’23. Russia’s share in India’s oil imports declined to around 30% in February, down significantly from the 2024 average of around 38%. Oil imports from the other key West Asian suppliers like Saudi Arabia and UAE, also declined sequentially. Oil imports from the UAE fell over 22% in February and from that of US fell 50% m-o-m.
- While crude oil prices have eased during Feb, in our view it may reflect with a lag in import numbers as contracts are signed in advance. This was probably the driver of a slip in oil import bill in Jan’25 vs Dec’24 despite sequential rise in prices and volumes. More importantly, oil trade dynamics may receive a favorable push from the downward trend in oil prices primarily driven by OPEC+'s decision to increase output and the introduction of US tariffs. The US tariffs on Canada, Mexico and China are expected to curb global economic activity and demand for energy which has weighed on oil prices. Trends in petroleum exports will remain on watch after a sharp y-o-y drop of 58.7% in refined petroleum products exports last month.
- In the **NONG** segment, deficit likely narrowed on positive seasonality in last quarter of fiscal. We also see improvement in volatile segments like machinery which saw a switch into deficit last month, while lower energy prices may drive favorable trade dynamics in sectors like chemicals, coal etc. Meanwhile, factors like spike in metal prices, dumping effects from some countries amid ongoing trade wars may cap the narrowing in NONG deficit.
- We assume a pickup in quantity of gold imports for Feb’25 to 70 tonnes (vs. 40 tonnes in Jan). Gold demand may have risen with the seasonal return of the marriage season. Further, strength in investment demand for physical gold likely sustained amid downward pressure on risky assets like equities. Going forward, given the elevated global macro uncertainty under Trump 2.0, safe haven demand for gold may persist.
- Commodity prices especially oil will remain on close watch to assess trends in trade deficit. The cooling seen in commodity prices, if sustained, would support trade dynamics while global growth and export worries may limit impact. Going forward, geopolitical risks especially tariff concerns will continue to influence trade dynamics.

Fig 3: NONG likely drove improvement in trade dynamics




**Gold imports quantity for Feb’25 is assumed at 70 tonnes*
*Source: RBI, Ministry of Commerce, CEIC, UBI research*

Fig 4: Goods trade deficit likely narrowed in Feb’25 with sustained support from strong services surplus




*Note: Figure for Feb’25 is our estimate*

### Wholesale Price Index likely to cool down to 2.0% in Feb'25

- **Wholesale Price Index (WPI)** is expected to moderate to 2.0% (y/y) in Feb'25, low from 2.3% in previous month, due to cooling in oil prices and seasonal drop in food prices. The latter was driven by fall in vegetable prices. Both fuel and core WPI inflation likely saw a very mild increase in Feb'25.
- **Food WPI** is seen to moderate during the month as seasonal rise in supplies. Within food, vegetable WPI is estimated to see sequential drop during the month at (-)12% m/m. However, edible oil prices are showing marginal increase sequentially. Manufactured food prices are expected to settle low as sugar and edible oil prices showed lower increase during the month (edible oil and sugar are primary inputs in manufactured food products).
- **Fuel Index is expected to** remain in negative zone in Feb'25 due to sequential fall in global oil prices. Fuel prices are seen to record monthly decrease during Feb'25 after remaining in positive zone for last two months, on rise in global growth concerns under Trump 2.0.
- **Core WPI** which reflects inflation excluding food and fuel, is expected to witness a sequential moderation in Feb'25, due to cooling down of global energy prices even as spike in metal prices during the month capped the impact. Core WPI includes price movements in non-food manufactured products which closely track commodity prices as more than 40% manufacturing raw materials are imported. Commodity prices (adjusted for INR) have seen a sequential drop in Feb'25 led by energy sub-segment.
- A comparative analysis of China's Producer Price Index (PPI) and Wholesale Price Index in India reflects that, there exists a strong correlation between the two. However, China PPI likely stayed in deflation zone (Feb'25: -2.3%), we would continue to see moderation in India WPI inflation amid supply corrections both globally and domestically.
- **Going forward,** WPI is expected to see a downward movement amid softening fuel prices and commodity prices globally, along with seasonal cooling in food prices. However, impact of on-going trade wars on global supply chains will be on close watch for observing future price trends.

**Fig 5: WPI likely to moderate in Feb'25**

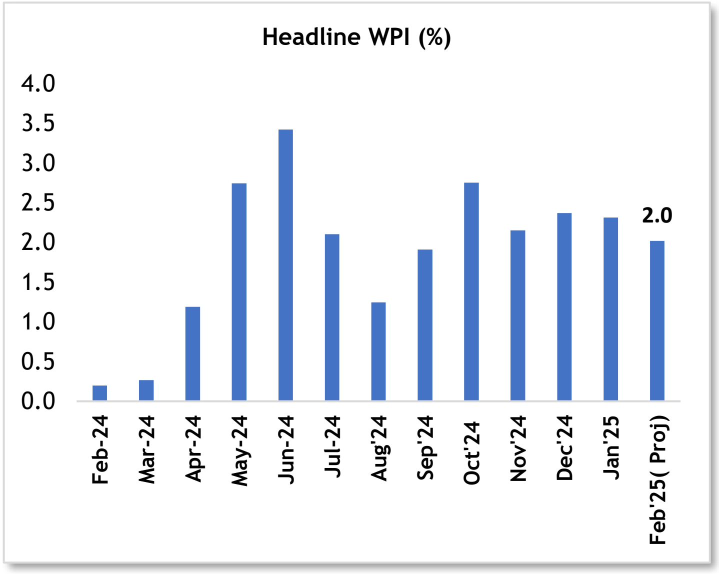



**Fig 6: High historic correlation between China PPI and India yet some departure in recent trends**

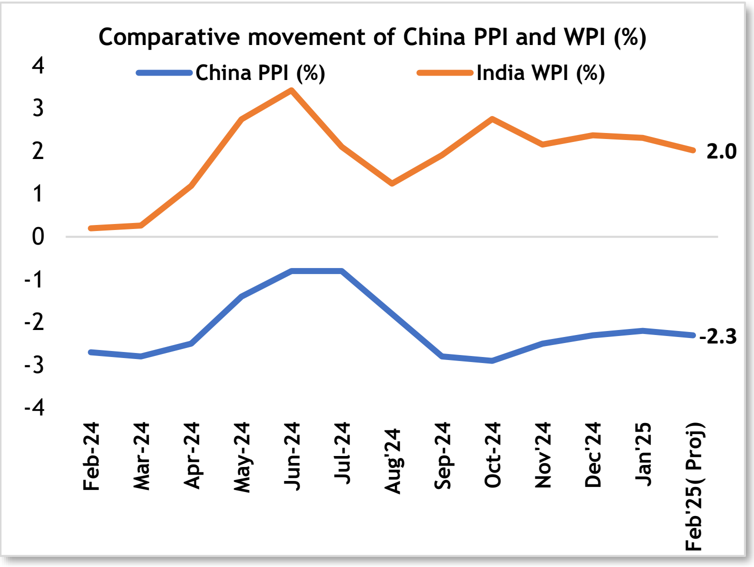
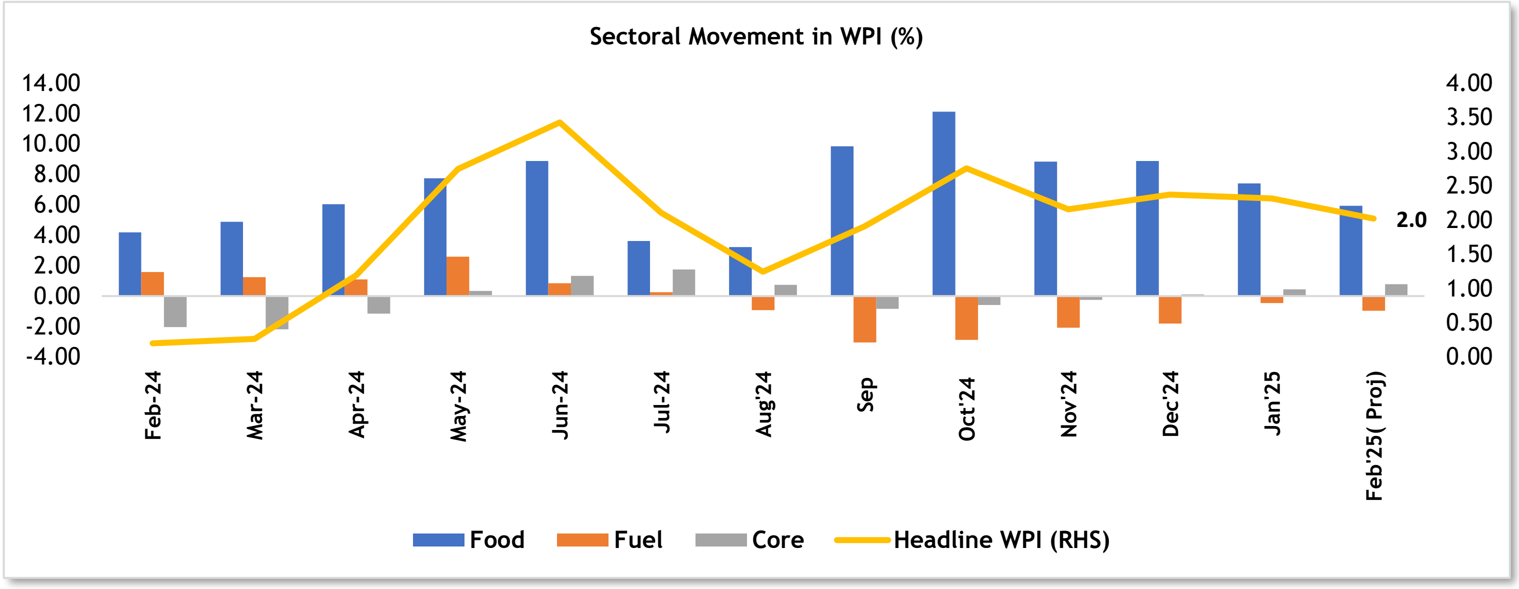



**Fig 7: While food moderate, fuel enters negative zone amid global cues (y/y)**




*Source: CEIC, UBI research*

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