May'25 trade deficit likely improved post Trump-tariff led spike last month

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Data release	Due date	Oct'24	Nov'24	Dec'24	Jan'25	Feb'25	Mar'25	Apr'25	May'25 (Projected)
Trade Balance (Bln $)	16th Jun'25	-27.1	-32.0	-21.9	-23.0	-14.1	-21.5	-26.4	-23.2

Trade Deficit likely narrowed in May'25

- **Merchandise trade deficit** likely narrowed slightly in May'25 to $23.24bln vis-à-vis $26.42bln a month ago. This was probably led by normalization in trade dynamics post Trump-tariff led deterioration last month apart from seasonal correction in Gold imports after Akshaya Tritiya & temporary pause of the wedding season. That said, commodity prices saw a mixed impact, as oil remained subdued while metals saw an uptick. (Refer our report: Trade Deficit in Apr'25 sharply widens to $26.4 bn, highest since Nov'24)
- **Oil deficit** likely saw marginal improvement amid fall in global Brent crude oil prices of $64.01/bbl. vis-à-vis $66.46/bbl. a month ago. However, the extent of narrowing in deficit was capped on higher volume demand. As per market analytics firm Kpler, total crude oil imports surged in May'25 to 5.1mbpd, compared to 4.88mbpd in the previous month. In May, India's imports of Russian crude oil surged to a 10-month high of 1.96mbpd, fueled by the sustained availability of cargoes at notable discounts to global benchmark prices. Russia remained India's top crude oil supplier, contributing over 38% of total imports. Iraq held its position as the second-largest source, supplying 1.2mbpd. Saudi Arabia followed with 615k bpd, while the United Arab Emirates (UAE) provided 490k bpd. The US completed the top 5, delivering 280k bpd, highlighting India's ongoing efforts to diversify its import portfolio and manage geopolitical risk. India's diesel exports to Southeast Asia surged to over 600k metric tons (around 4.47mbpd), the highest monthly volume in at least 4-years. The increase was largely driven by strong profit margins and lower shipping costs to destinations like Singapore and Malaysia, making the region more attractive compared to Europe. In contrast, diesel exports to Europe fell to 500k metric tons, as higher freight rates and geopolitical risks, particularly those affecting the Suez Canal route, weighed on trade flows.
- **Gold deficit** expected to narrow sharply in May'25 after last leg of wedding seasons in the 1st half of CY2025 and Akshaya Tritiya effects. Regulatory factors may have also contributed to trade dynamics as effective from 20th May'25, India imposed tighter controls on gold and silver imports from the UAE. Imports of unwrought, semi-manufactured, and powdered forms of these metals are now restricted to authorized channels. Only nominated agencies, qualified jewellers, and entities holding valid Tariff Rate Quotas (TRQs) under the India-UAE Comprehensive Economic Partnership Agreement (CEPA) are permitted to bring in such consignments. Notably, gold prices hovering near record highs — averaging $3,283/oz in May 2025, vs $3,211/oz in April likely continued to act as constraint on import volumes.
- **Non-Oil-Non-Gold** deficit probably saw slight improvement despite negative seasonality on likely normalization in imports post sharp widening seen last month on frontloading of imports (due to tariff uncertainty). In terms of commodity prices, post the sharp drop in April on global recession worries, while oil prices stayed subdued on OPEC+ supply promise, metal prices saw an upward correction. Hence, segment wise impact within NONG will be closely watched after machinery (volatile sub-segment) and chemicals (linked to oil prices) explained ~60% of MoM widening in NONG trade deficit.
- **Going forward,** commodity prices especially oil and metals will remain on close watch to assess trends in trade deficit. The uptrend seen in commodity prices, if sustained, would dampen trade dynamics while global growth and export worries may limit impact. Going forward, geopolitical risks especially tariff concerns and any trade deals signed by India with US/Europe will influence trade-dynamics.

Fig 1: India's gold demand to subdue in FY26 on 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
FY25	757.09
H1TDFY26	34.87

Source: CEIC, UBI research

Fig 2: Broad based improvement in trade dynamics seen in May'25

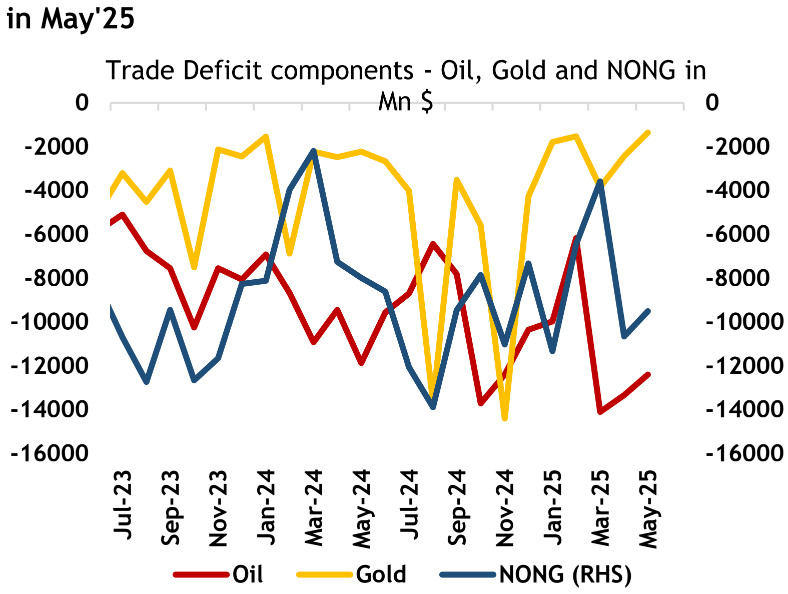
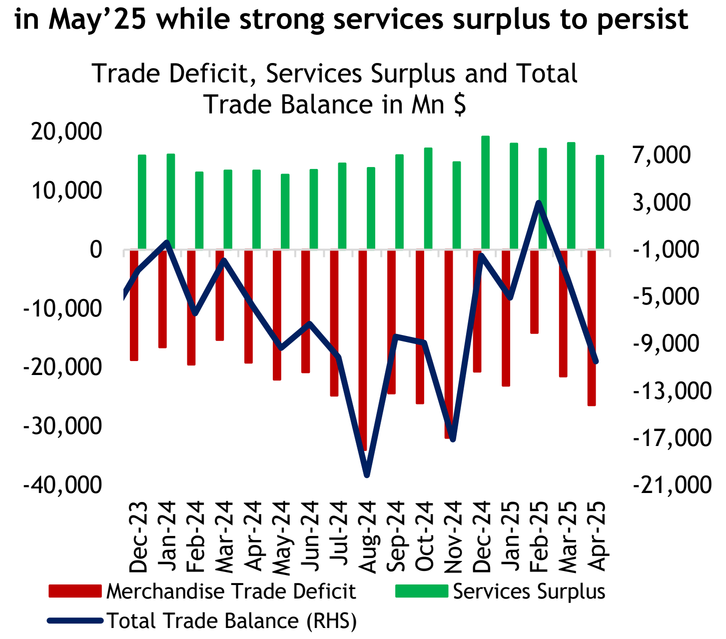


Fig 3: Goods trade deficit estimated to be narrower in May'25 while strong services surplus to persist



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