10th September 2024

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Akash Deb
akash510@unionbankofindia.bank

S. Jaya Lakshmi
s.jayalakshmi@unionbankofindia.bank

Data release	Due date	Feb'24	Mar'24	Apr'24	May'24	Jun'24	Jul'24	Aug'24 (Projected)
WPI (YoY %)	17th Sep'24	0.2%	0.3%	1.3%	2.6%	3.4%	2.04%	1.59%
Trade Balance (Bn $)	17th Sep'24	-18.7	-15.6	-19.1	-23.8	-21.0	-23.5	-24.9

Trade Deficit likely widened sharply to 10-month highs (Oct'23) in Aug'24

- **Merchandise trade deficit** likely saw sharper deterioration in Aug'24 to $24.9bn vis-à-vis $23.5 bn a month ago. This was probably led by a surge in gold imports ahead of festive season and on impact of import duty cut in the Budget in end July though the impact was mildly offset by fall in crude oil imports amid lower demand. (Please refer our report: July trade data provided negative surprise; oil price trends on watch)
- **Oil deficit** likely stayed flat MoM at $8.9 in Aug'24 on lower oil prices. According to media reports, India likely procured 4.17mbpd of Brent crude oil in the current month, compared to 4.61mbpd during July 2024. Similar to last month's trend, India's imports of Russian crude have fallen by 17% MoM decline in July, likely due to lower supplies from Russia, as well as several domestic refineries shutting for planned maintenance. Energy cargo tracker Vortexa reported, that although Russia lost its share in the country's crude import basket but still remained the top supplier last month of 39% from 43% registered in July. Russia's Urals has a price advantage of over $5 per barrel over Saudi Arabian medium-sour grades. Imports from Iraq rose by 14% on month at 778,262bpd in August, accounting for 19% of the country's total crude oil imports.
- **In the non-oil-non-gold segment**, deficit likely moderated marginally MoM basis as the deadline to review the 'import management system' for laptops and other IT products are nearing. Though central government slashed import duty in mobile parts & accessories to boost manufacturing in India, it may have a lagged impact on trade dynamics. The slip in commodity prices and possible deficit correction in bulky segments like machinery likely drove an improvement in trade deficit post sharp widening seen in recent months.
- **Gold deficit** widened sharply in Aug'24 ahead of the festive and wedding seasons. Also, the reduction in basic customs duty (BCD) of gold, silver and platinum from (Gold bar: 15% to 6%) in the Budget probably led to a spike in import volumes as per media reports. Moreover, surge in gold prices to near record levels (avg $2472/oz in August up from avg $2394/oz a month ago) proved to be a double whammy for trade dynamics though elevated prices may have kept a lid on volumes.
- **Going forward,** commodity prices especially oil will remain on close watch to assess the trends in trade deficit and overall C/A dynamics. Given that oil prices are stabilizing at lower levels ($73/bbl) amid demand concerns despite Middle east tensions & Libya crisis, amid global growth worries, a favourable impact on trade deficit trends seen in the coming months.

Fig 1: Gold was likely the key driver of trade deterioration in Aug-24

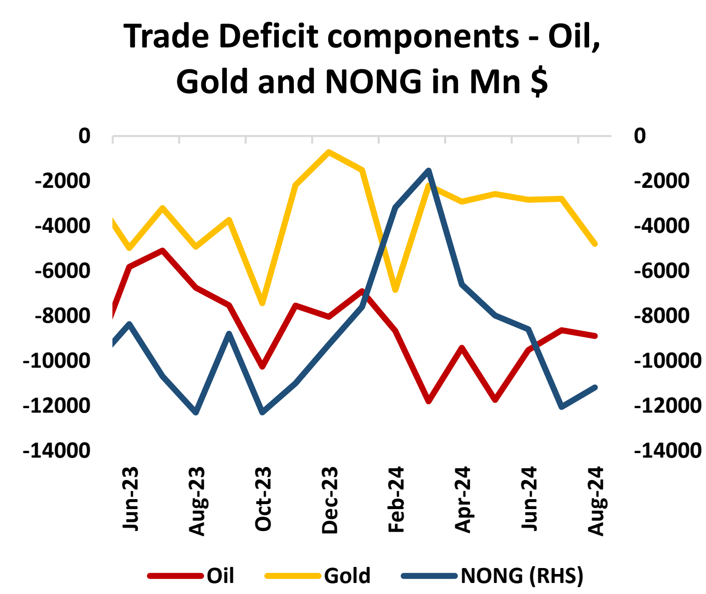


Fig 2: Goods trade deficit estimated to widen in Aug-24 yet strong services surplus to support

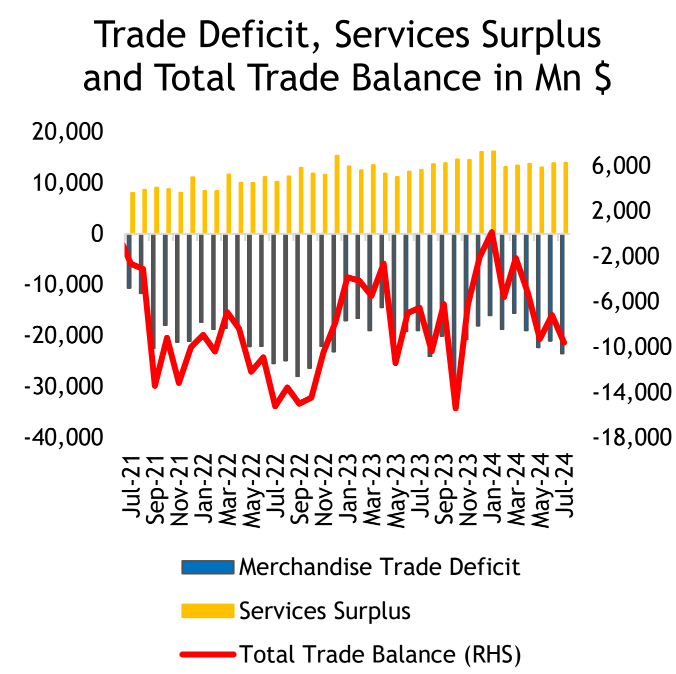


Fig. for Aug-24 is our estimate; Source: CEIC, UBI research

Wholesale Price Index likely to moderate further to 1.59% in Aug'24

- **Wholesale Price Index (WPI)** is expected to moderate to 1.59% (y-o-y) in Aug'24, from 2.04% in previous month. Food prices have seen a cooling momentum led by vegetables due to improved supplies with surplus monsoon also helping drive favourable outlook. Fuel WPI likely moderated in line with trends in global oil prices, while core inflation is estimated to ease slightly.
- **Food WPI** is likely to increase by 3.3%(y-o-y), a notable moderation from last few months as vegetable prices saw downward pressure after supplies resumed. Inflation in other food components viz. cereal, pulses and perishable basket (egg, fish & meat) as well is estimated to have seen downward pressure as noted from trends in on-the -ground prices.
- **Fuel Index** is expected to slow down to 0.50% (y-o-y) in Aug'24 from 2.9% last month due to sharp fall in crude oil prices. Hence, both MoM and YoY slip in fuel WPI inflation was clocked in Aug'24.
- **Core WPI** which reflects inflation excluding food and fuel, is expected to stay nearly flat at 0.9% YoY on adverse base effects, despite sequential drop seen on the back of downturn in global commodity prices. Core WPI includes price movements in non-food manufactured products which closely track commodity prices as more than 40% raw materials are imported by the manufacturing sector.
- 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, which is reflective of decrease in commodity prices in the global markets. While China PPI went into further deflation at (-)1.8% in Aug'24, we expect a decline in India WPI due to moderation in commodity prices in global markets as well as resumption in domestic food supplies.
- Going forward, WPI is expected to see some downward pressure on the back of recent moderation in global commodity prices. Further, seasonal moderation in domestic food price trends likely to help yet monsoon trends in September needs close watch as the Indian Meteorological Department has raised concerns regarding possibility of floods during the month.

Fig 3: **WPI likely slipped to 4-month lows in Aug'24;** *% YoY*

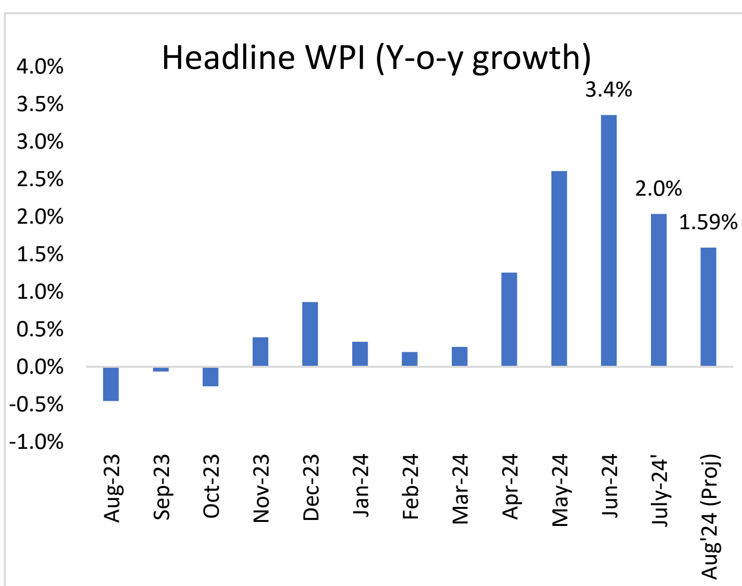


Fig 4: **Downward pressure on food inflation seen led by vegetables;** *% YoY*

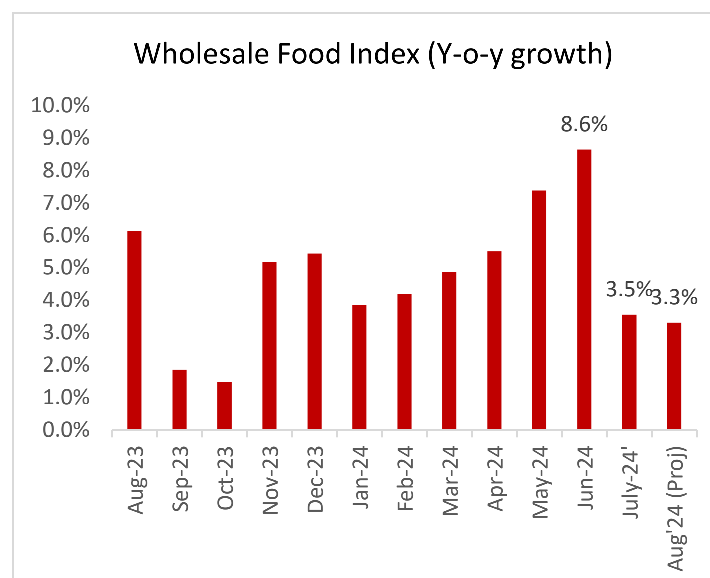


Fig 5: China's Producer Price Index and India' WPI show strong correlation and signals downward pressure on inflation

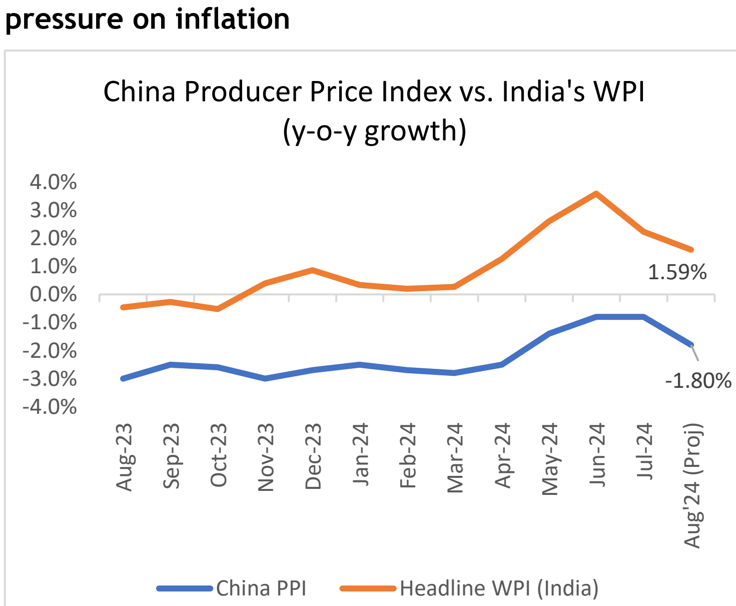
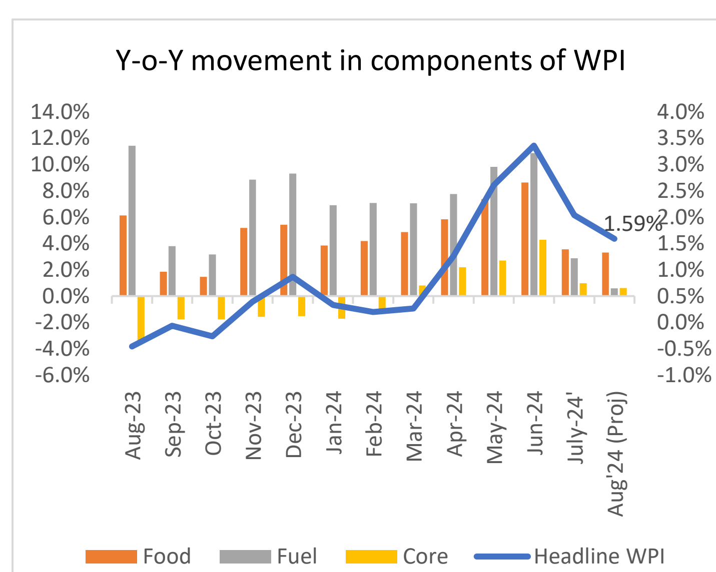


Fig 6: Broad based cooling in inflation likely witnessed in Aug'24



Note: Figure for Aug is our estimate

Banking Research Team	
Kanika Pasricha **Chief Economic Advisor**	**kanika.pasricha@unionbankofindia.bank**
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank