Oct'24 trade data provided negative surprise; oil plays spoilsport

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

- Merchandise Trade Deficit clocked near record high levels of $27.14bln Oct'24 vis-a-vis our estimate of $21.7bln (Market consensus: $22.0bln), after marginally cooling off in Sep'24 to $20.8bln. However, deficit narrowed from $30.43bln on a YoY basis.
- In terms of sub-segments, oil was the prime driver of trade dynamics as deficit hit an all-time high of $13.71bln ahead of festive season. Meanwhile, gold deficit widened (as expected) ahead of Dhanteras & Diwali festivals. However, recovery was seen in non-oil non-gold (NONG) deficit which clocked 6-month lows at $7.85bln. (Please refer our report: "Data Preview: Trade and & WPI Oct'24")

Trade deficit widens in double digits despite **record services exports**

- Services trade balance remained in surplus and clocked to the highest levels ever of $17.02bln in Oct'24 vis-à-vis $16.07bln a month ago and much above the record high levels above $16 bn clocked in Dec'23 and Jan'24.
- Total trade deficit (goods and services combined) widened to double digit levels to $10.12bln.
- As per our estimate, the current account (C/A) balance continued to be in deficit in Q3-FY25 as seen in Q3-FY25.

Trade deterioration in Oct'24 majorly primarily led by Oil

- In a sharp negative surprise, we had estimated a narrowing in oil deficit in Oct'24 after it spiked last month which was in line with our expectations. Oil deficit widened to unforeseen levels. While we expected oil trade deterioration on lagged impact of price spike in Q2 FY25 to c.$85/bbl, however the quantum of impact has significantly cooled after it surprised us after oil deficit spiked to unforeseen levels. We think this is a one-off likely to reverse next month.
- Interestingly, according to media reports, imports declined by 7.6% (MoM) to 4.35mbpd of Brent crude oil in the Oct'24 compared to 4.94mbpd during Sep'24. As per the data by international commodity market analytics firm Kpler; supplies from Russia—India's largest source market for crude—fell 9.2% sequentially to a 7-month low of 1.73mbpd, accounting for almost 40% of India's total oil imports in October. Oil import volumes from Iraq and Saudi Arabia were sequentially lower by 3.3% at 0.84mbpd and 10.9% at 0.65mbpd, respectively. The demand is expected to rebound in November as all refiners would be fully back on stream amid robust demand.
- Gold deficit widened in oct'24 as per our expectations ahead of the Dhanteras & Diwali festivals and wedding seasons. Buyers of gold brushed off record high prices and made purchases hoping bullion would continue to rally and deliver promising returns. It appears that the rise in gold prices to near record levels (avg $2692/oz in Oct'24 up from avg $2572/oz in previous month) likely weighed on demand and overall imports. In the coming months, we see gold deficit staying subdued post festive seasons from end-November. In the interim, another factor which can boost gold imports can be shift in gold import demand from unofficial channels post a steep customs duty cut from 15% to 6% in the Budget in end July.
- As noted above, non-oil non-gold (NONG) deficit narrowed to $7.85bln (last seen in Apr'23) vis-à-vis $9.46bln a month ago. This was due to downward pressure on commodity prices especially base metals. Sub-segment wise data shows that majority of improvement in deficit MoM has been explained by Electronics (12.7%), surprise given this data did not show any deficit demand at such. Interestingly machinery surplus (51.6%) also improved by 1bln MoM though the impact was offset by NONG deficit was chemicals (c.27%) and ores (c.20%). Going forward, trends in commodity prices remain key to watch while machinery & electronics sub segment will also remain in focus .

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

- In H1 FY 2024-25, avg trade deficit at USD 22.9 bn is wider when compared to our estimate of close to USD 21 bn for full year FY 25, yet we are keeping our CAD projection of 0.9% of GDP unchanged for now given that oil prices are trading lower currently and close to USD 75/ bbl (our FY 25 assumption USD 85/bbl), exports holding up for now close to USD 35 bn and positive trade seasonality expected in Q4 FY25. We estimate a further widening of current account (C/A) deficit in Q3-FY25 vs Q2, however, the trajectory would be closely dependent on global commodity prices and along with extent of festival demand unless geo political shocks cause a sharp price spike.

- 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 $15 bn. Hence if oil prices settle at c.$95/b, C/A deficit may be closer to 1.5% of GDP in FY25.

Fig.1: Overall trade deficit back in double-digits in Oct'24 *(in $ mn)*

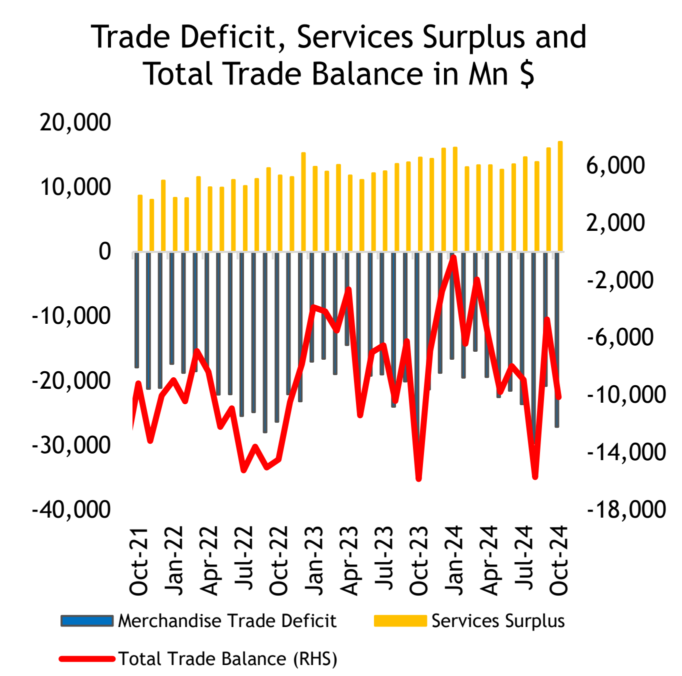

Fig.2: Imports picked up at a faster pace MoM versus exports in Oct'24 *(in $ mn)*

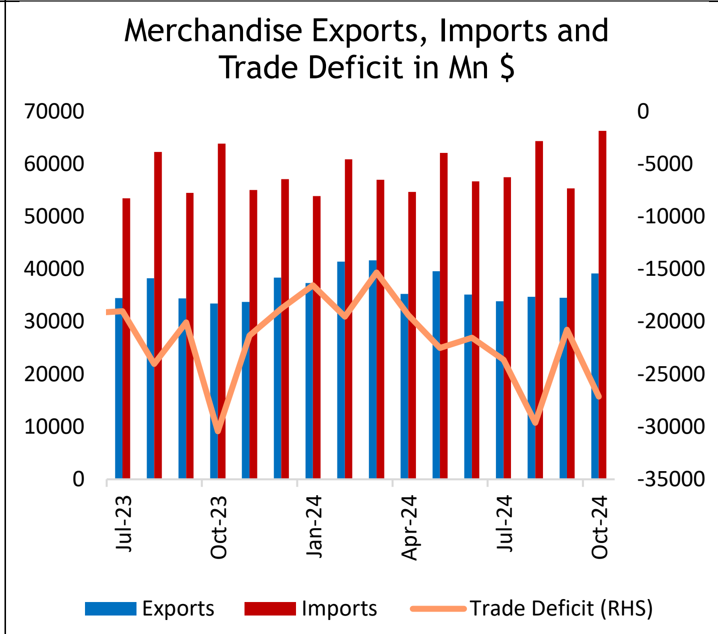

Fig.3: Trade deterioration led by oil and gold yet NONG capped impact *(in $ mn)*

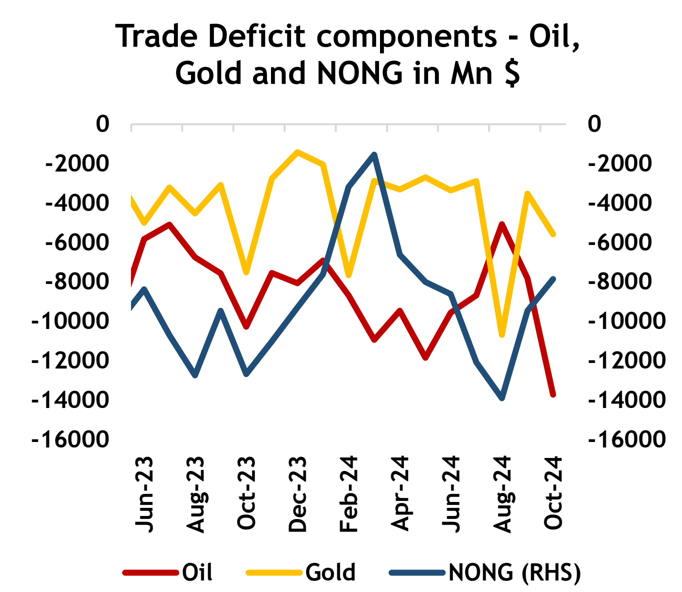

Fig.4: NONG deficit narrowed led by mainly electronics and machinery

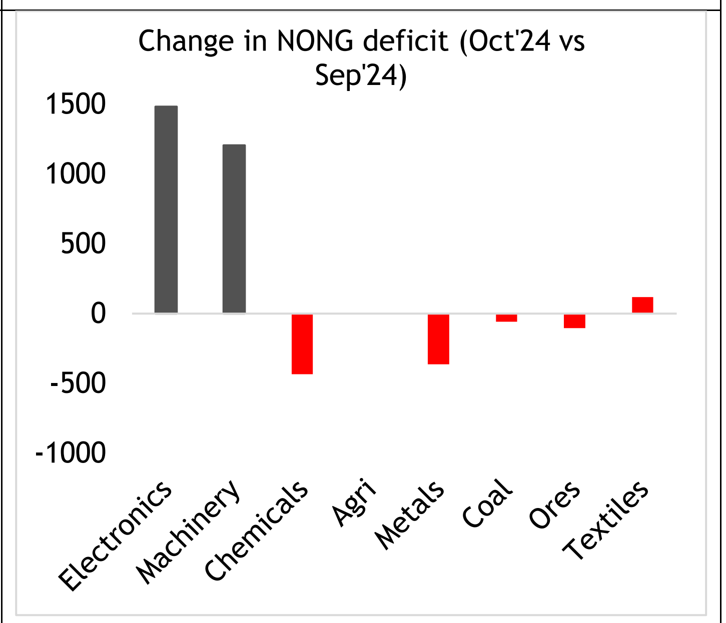

Fig.5: Data Table *(monthly average trade deficit)*

USD bln	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	56.5	-19.9	-8.0	-3.5	-8.4
Apr-24	35.3	54.7	-19.4	-9.4	-3.3	-6.6
May-24	39.6	62.1	-22.5	-11.8	-2.7	-8.0
Jun-24	35.2	56.7	-21.5	-9.6	-3.4	-8.6
Jul-24	33.9	57.5	-23.6	-8.7	-2.9	-12.1
Aug-24	34.7	64.3	-29.6	-5.1	-10.7	-13.9
Sep-24	34.6	55.4	-20.8	-7.8	-3.5	-9.5
Oct-24	39.2	66.3	-27.1	-13.7	-5.6	-7.9

Source: CEIC and UBI Research

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