

By:

Kanika Pasricha  
[kanika.pasricha@unionbankofindia.bank](mailto:kanika.pasricha@unionbankofindia.bank)

Akash Deb  
[akash510@unionbankofindia.bank](mailto:akash510@unionbankofindia.bank)

### Trade Deficit in Aug'24 widened much sharper than our above consensus estimate

- Merchandise Trade Deficit clocked near record high levels of \$29.65bln in Aug'24 vis-à-vis \$23.50bln a month ago (highest since October 2023). While we anticipated trade deterioration on likely spike in gold imports, the number came in much higher than our above consensus estimate (\$23.0bln) of \$24.9bln. (Please refer: "[Data Preview: Trade deficit likely to widen while WPI to moderate in Aug'24](#)")
- In terms of sub-segments, gold was the prime driver of trade dynamics (as expected) as deficit hit an all-time high of \$10.69bln ahead of festive season and import duty cut in the budget in end-July. Meanwhile, oil deficit narrowed on both price and volume effects while further deterioration was seen in non-oil non-gold (NONG) deficit which clocked 21-month highs at \$13.89bln.

### C/A deficit likely to widen sharply in Jul-Sep quarter

- Services trade surplus improved to \$14.99bln in Aug'24 vis-à-vis \$14.68bln a month ago, thereby providing relief.
- Total trade deficit (goods and services combined) widened to double-digit levels last seen in Oct'23, to \$14.66bln vis-a-vis \$8.91bln last month. The average trade deficit in July-Aug'24 is c.\$11.8bln vs \$7.6bln in Apr-June'24 quarter.
- We estimate a sharp widening in current account (C/A) deficit in Q2-FY25 vs Q1.

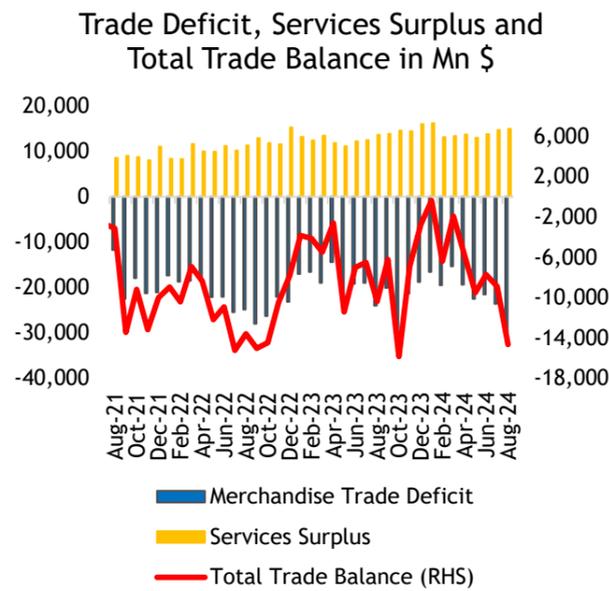
### Trade deterioration in Aug'24 primarily led by Gold (as expected)

- Gold deficit widened steeply in Aug'24 ahead of the festive & wedding season. Also, the reduction in basic customs duty (BCD) of gold, silver and platinum from (Gold bar: 15% to 6%) in the Budget in end-July, probably led to a spike in import volumes through the official route. More importantly, the rise in gold prices to near record levels (avg \$2472/oz in July marginally up from avg \$2394/oz in previous month) did not weigh on demand estimated at c.126 tonnes vs 44 tonnes in July. In the coming months, we see gold deficit staying elevated as the festive season kicks in from this month.
- NONG deficit widened further to \$13.89bln (last seen in Nov'22) vis-à-vis \$12.06bln a month ago. The widening in NONG deficit despite subdued global commodity prices is reflective of resilient demand dynamics in the economy. The MoM widening in deficit was primarily contributed by volatile segments like machinery (\$1bn MoM), metal& ores (\$0.8bln) and electronics (\$0.7bln). The latter was probably led by the reduction in BCD rates were reduced on imported mobile phones, mobile printed circuit board assembly, and chargers to 15% from 20% In the Budget, which boosted demand ahead of festive season. Going forward, trends in commodity prices remain key to watch while lumpy machinery imports may see some correction in the coming months even as electronics demand may stay strong during festive season.
- As noted above, we had estimated a narrowing in oil deficit in Aug'24 on combination of price effect (Average oil price slipped to \$78/bbl in Aug'24 vs \$84.4/bbl in July'24).
- 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 July'24, India's imports of Russian crude have slipped MoM, 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 our crude import basket, it still remained the top supplier last month with 39% share from 43% registered in July. Russia's Urals has a price advantage of over \$5 per barrel over Saudi Arabian medium-sour grades.

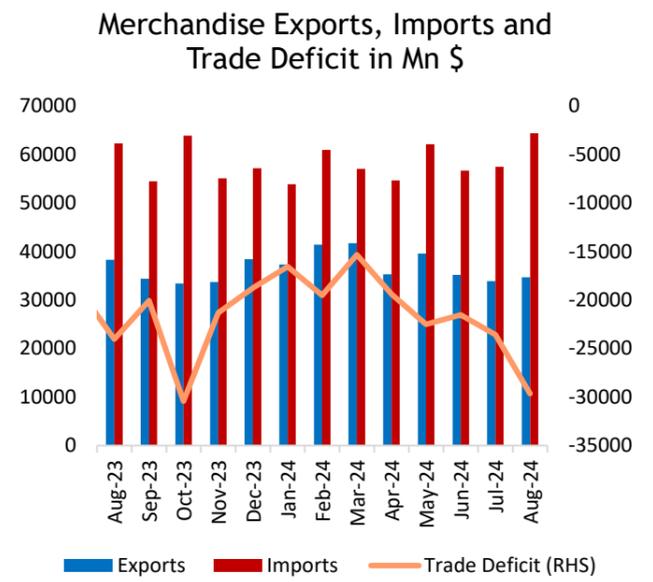
### We maintain FY25 C/A deficit forecast at 0.9% of GDP; risks on close watch

- For FY25, our forecast of 0.9% of GDP C/A deficit assumed a monthly average goods trade deficit of USD 21.1bn while the current run rate (Apr-Aug'24) is c.\$23.33bln. This poses slight risk to our C/A deficit forecast though recent correction in commodity prices especially oil, if sustained, are likely to have a salutary effect on trade dynamics in the coming months.
- Apart from this, we are also watching for risk from spike in Gold prices amid US rate cut expectations while volume demand remains strong. However cooling oil prices on demand concerns to support (our assumption of annual average oil price is \$85/bbl).
- 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 average oil prices settle lower at c.\$75/b, C/A deficit may be closer to 0.5% of GDP in FY25.

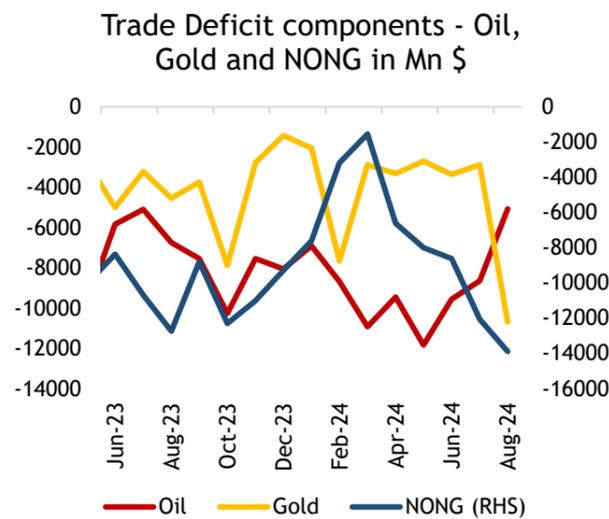
**Fig. 1: Current A/C balance Deficit widened to \$30bln levels in Aug'24 (in \$ mn)**



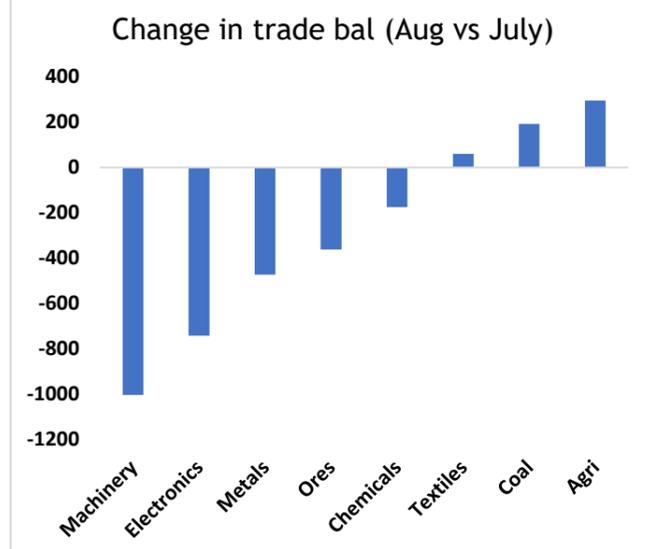
**Fig.2: Exports edged up MoM while imports rose to record highs (in \$ mn)**



**Fig. 3: Trade deterioration led by Gold (in \$ mn)**



**Fig.4: Wider NONG deficit led by machinery, electronics, metals and ores (in \$ mn)**



**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	-9.5	-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	-8.6	-2.9	-12.1
<b>Aug-24</b>	<b>34.7</b>	<b>64.4</b>	<b>-29.7</b>	<b>-5.1</b>	<b>-10.7</b>	<b>-13.9</b>

Unforeseen levels

Source: CEIC and UBI Research

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
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank

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