Trade deficit narrows to $21.94bln led by normalization in gold deficit

Union Bank of India — Good people to bank with

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Fig 1: We revise our FY25 C/A deficit forecast to 1.2% of GDP from 0.9%

Monthly Avg (USD bn)	FY25 (pre)	FYTD25	FY25 (post)
Goods trade balance	-21.1	-25.3	-23.7
Services trade surplus	14.0	14.9	15.6
Remittances	7.9	8.8	8.3
Investment outflows	-3.9	-4.2	-4.2
C/A balance	-3.1	-5.8	-4.0

Source: UBI Research

Trade Deficit in Dec'24 narrowed to $21.94bln, positive surprise V/s market expectations

- **Merchandise Trade Deficit** clocked $21.94bln in Dec'24 vis-a-vis our estimate of $26.85bln (Market consensus: $25.8bln) before the Nov'24 data was revised to $31.83 V/s $37.84bln. The Govt. noticed unusual surge in imports of Gold and then during the reconciliation exercise, it was observed that due to migration of data transmission mechanism from SEZ to ICEGATE, the system was calculating both imports into SEZ and subsequent clearance into DTA as separate transactions after the migration. (Refer our report: Data Preview: Trade Data & WPI Dec'24)
- In terms of sub-segments, gold deficit returned to normalcy, oil deficit also narrowed amid fall in global crude oil prices and non-oil non-gold sub segment improved as well (led by Textiles & Agri exports).
- On a MoM basis, trade deficit improvement was led by surge in exports by c.$6bln to $38bln post a temporary blip in Nov'24 while imports dropped by $5bln to $59.95bln. This is primarily seen in exports of Non-Oil Non-Gold ($4bln MoM on a combination of price and volume effects) while impact was relatively lower in oil (probably mainly price effect) and gold (likely volume effect).

Services exports clocked record levels despite higher services imports

- Interestingly, while goods deficit narrowed from record highs, services trade surplus also inched higher to $15.16bln in Dec'24 vis-à-vis $14.79bln a month ago. However, there has been a sharp revision vs initial estimates of $17-18bln in Oct-Nov'24. Overall, services trade surplus remains steady despite a slowing global economy and is likely to continue to have a salutary effect on FY25 C/A dynamics.
- Total trade deficit (goods and services combined) narrowed to single digit levels of $6.78bln vis-à-vis from record deficit of $18.05.

Trade in Dec'24: Overall deficit narrowed to levels last seen in Sep'24

- **Gold deficit** narrowed in Dec'24 after surging to record highs in Nov'24 on the last leg of the festival season. Gold imports in volume normalized to an estimated c.50 tons in December and have totaled to 542 tons during Apr-Dec'24 V/s 622 tons same period last year. Hence, more than the volume effect, price effect (global prices up 27% YoY) is playing a strong role in gold deficit dynamics. While gold customs duty cut (15% to 6%) in budget boosted demand, and it continued till the wedding season. In our view, more than duty cut, gold demand is still led by a spike in investment demand for gold as investors consider portfolio diversification amid global uncertainty under Trump 2.0 (US election results were announced on 6th Nov'24 & him joining White House on 20th Jan'25). Nevertheless, gold prices are still hovering at near record levels (avg $2639/oz in Dec'24 marginal down from avg $2655/oz a month ago). As per media reports, despite the duty cut, the practice of importing gold via unofficial channels has also persisted via neighboring borders. Nevertheless, we see the spike in gold imports as a one-off and do not see it sustaining in the coming months despite favorable seasonal effects.
- **Oil Deficit:** As noted above, we had estimated oil deficit in Dec'24 likely stayed flattish amid marginal fall in global Brent crude oil prices of $73.13/bbl vis-à-vis $73.40/bbl a month ago. However, overall crude oil imports increased around 4% MoM to 4.46mbpd in Dec'24 compared to Nov'24, with imports from Iraq offsetting the decline in imports from Russia. As per market analytics firm Kpler, total crude oil imports increased in December driven by resumption in refinery activity. India imported 4.8mbpd of crude oil in Dec'24, compared to 4.7mbpd in the previous month. Data from Vortexa reports, import of Russian crude oil declined by 13.2% to 1.39mbpd in Dec'24 vis-a-vis 1.61mbpd in Nov'24, still Russia remained the largest crude supplier with 31%. Meanwhile, exports of petroleum products took a hit amid sluggish demand in developed economies after logistical disruptions along major supply routes, majorly in the red sea.
- **Non-Oil Non-Gold (NONG) deficit** narrowed substantially on a MoM basis to $7.32bln vis-à-vis $11.03bln a month ago. Post festive season was over, December saw seasonal improvement in trade dynamics. Sub-segment wise data shows that MoM narrowing in NONG deficit was majorly explained by bulky machinery sub-segment which turned from $0.28bln in Nov'24 to a major surplus of $1.20bln in Dec'24. Other key positive contributors were chemicals and agri while electronics were a key drag *(Fig 5)*.

We maintain our FY25 C/A deficit forecast at 1.2% of GDP

- Post the November data shocker, we revised our FY25 C/A deficit to 1.2% of GDP from 0.9% earlier. While there has been a downward revision in historical trade data posing a downside risk to our projections, we would watch for trends before considering any changes.
- In our view, recent spike in oil prices to $80/bbl levels needs close watch, along with trends in services exports to determine C/A dynamics. In specific, 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.

Fig.2: Overall trade deficit back in single-digit in Dec'24 *(in $ mn)*

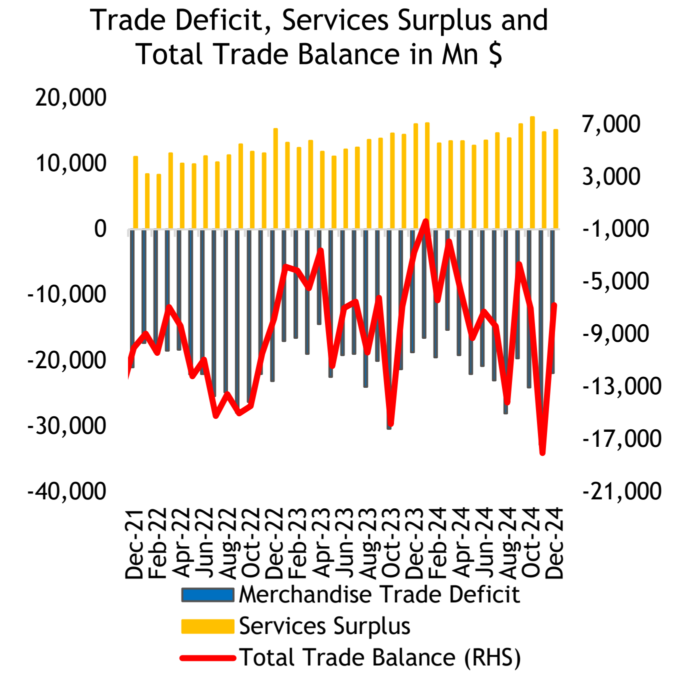

Fig.3: Exports picked up at a faster pace MoM versus exports in Dec'24 *(in $ mn)*

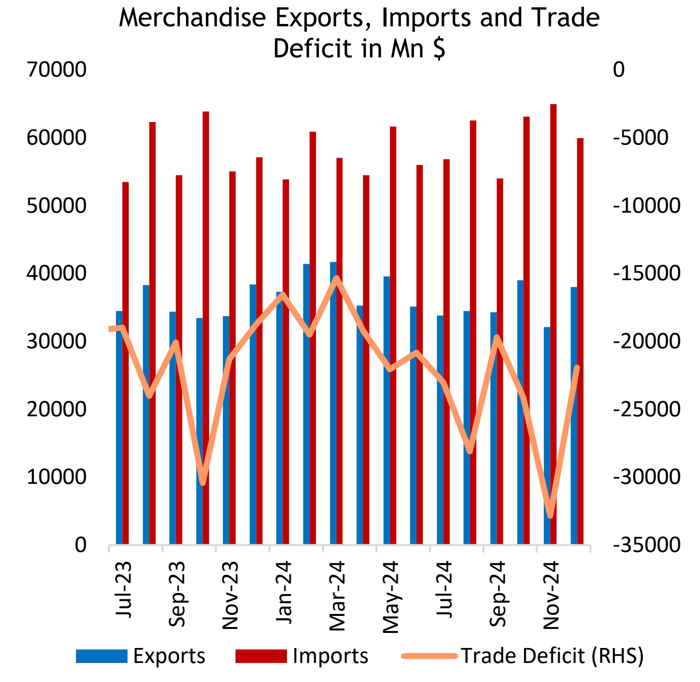

Fig.4: Trade deficit narrowed led by Gold and NONG yet Oil capped impact *(in $ mn)*

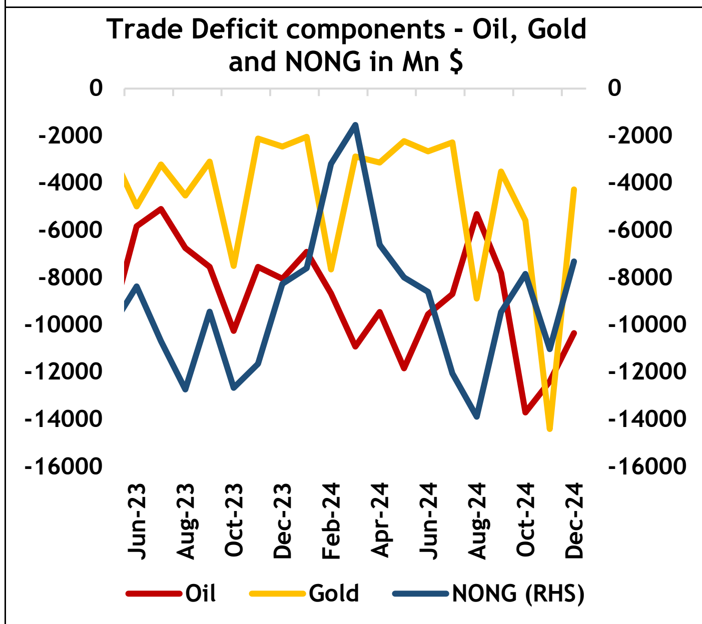

Fig.5: NONG deficit led by electronics while Machinery, chemicals & Agri provided support *(in $ mn)*

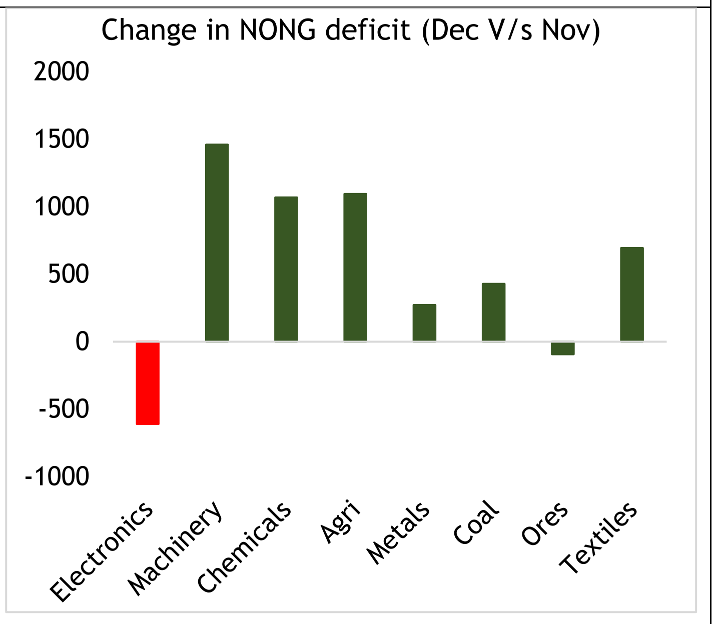

Fig.6: Data Table *(monthly trade deficit)*

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	54.5	-19.2	-9.5	-3.1	-6.6
May-24	39.6	61.6	-22.1	-11.8	-2.2	-8.0
Jun-24	35.2	56.0	-20.8	-9.6	-2.7	-8.6
Jul-24	33.8	56.8	-23.0	-8.7	-2.3	-12.1
Aug-24	34.5	62.6	-28.1	-5.3	-8.9	-13.9
Sep-24	34.3	54.0	-19.7	-8.0	-2.3	-9.5
Oct-24	39.0	63.1	-24.1	-13.9	-2.4	-7.9
Nov-24	32.1	65.0	-32.8	-12.4	-9.4	-11.0
Dec-24	38.0	60.0	-21.9	-10.4	-4.3	-7.3

Source: CEIC and UBI Research

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