Trade deficit normalises to $20.8 bn in Sep’24 post August aberration

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September Deficit normalized primarily led by gold and Non-Gold

- Headline trade deficit normalized to USD 20.8bn from USD 30 bn last month. This was a favourable surprise vis-a-vis our estimate of USD 24.5bn. (Please refer to our Trade preview report for Sep’24). To recall, gold imports spiked in August to unprecedented USD 10.06 bn on lagged impact of customs duty cut in Union Budget in late July thereby affecting trade dynamics. In September, gold imports corrected sharply to USD 4.4 bn supporting normalization of trade dynamics.

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

- Meanwhile, services surplus stayed strong at USD 14.3 bn in Sep’24 thereby making total trade deficit slip back into single digits.
- Total trade deficit (goods and services combined) sharply narrowed to its five months low of USD 6.4 bn, vis-a-vis 15.73 bln last month. The average trade deficit in Q2 FY 2024-25 (Jul-Sep) however widened to USD 10.37 bln vs USD 7.8 bln in Q1 (Apr-June) quarter due to exceptionally high numbers in August.

Gold led the correction in deficit; NONG also supported

- **Gold deficit narrowed** sharply in Sep’24 and reversed way more than market expectations. Gold imports slipped to 53 tonnes post spike in August to 140 tonnes. More importantly, the rise in gold prices to near record levels (avg $2572/oz in Sep marginally up from avg $2473/oz in previous month) helped weigh on volume demand (a trend not seen last month) with quantity of gold demand slipping to nearly 1/3rd of what it was in previous month (135 tonnes in Aug vs. 53 tonnes in Sep).However, we may see a seasonal pickup in the coming months on festive and marriage season demand effect.

- **NONG deficit marginally corrected to** $9.4 bn vis-à-vis $13.9 bn a month ago, first in last six months to show a sequential decline. The narrowing of NONG deficit was probably on combined impact of lower commodity prices and slight easing in demand pressures. The MoM narrowing in deficit was primarily contributed by lumpy machinery sub-segment (trade surplus of $1.1 bn in Sep, from trade deficit of $ 0.28 Bn in Aug), along with chemicals, metals and coal. Going forward, trends in commodity prices remain key to watch while electronics demand and hence deficit may continue to face widening pressure on festive season effects. Media reports are discussing close to 25% jump in ecommerce sales during early part of festive season led by mobiles and electronics.

- **Oil deficit remained in single** digits at USD 7.8 Bn supported by lower oil prices (Sep'24 average was USD 73/bbl vs FYTD avg of USD 82/bbl). Despite sequential drop in oil prices, deficit remained steady partly due to an uptick in volume demand.

We maintain FY25 C/A deficit forecast at 0.9% of GDP; risks on close 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/bbl move in oil price affecting annual C/A balance by close to $15 bn. Hence if average oil prices settle lower at $75/b, C/A deficit may be closer to 0.5% of GDP in FY25.

Fig.1:Trade Deficit narrowed to $20.8 bln in Sep’24

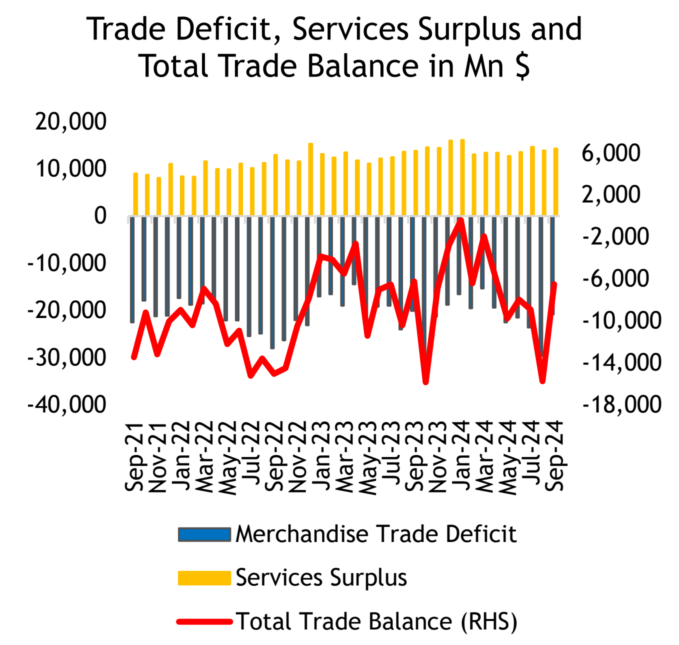

Fig.2: Exports remained stable while imports narrowed in Sep’24

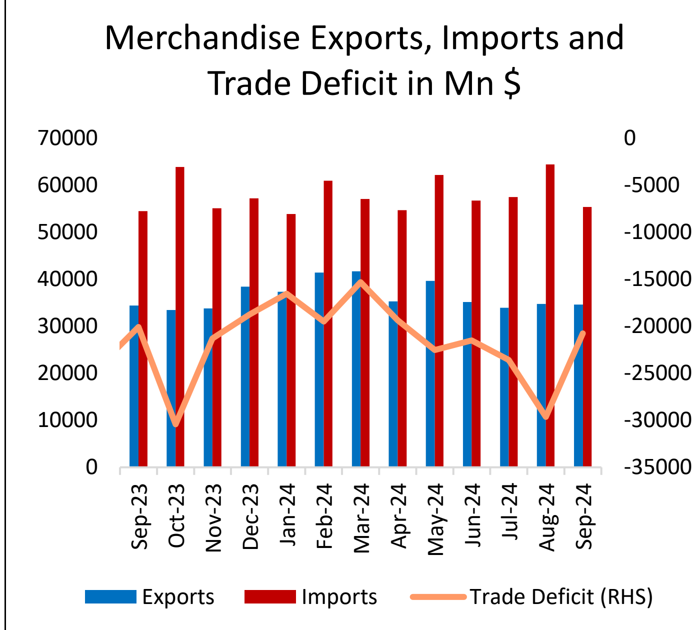

Fig.3: Trade deficit narrowed due to correction in gold

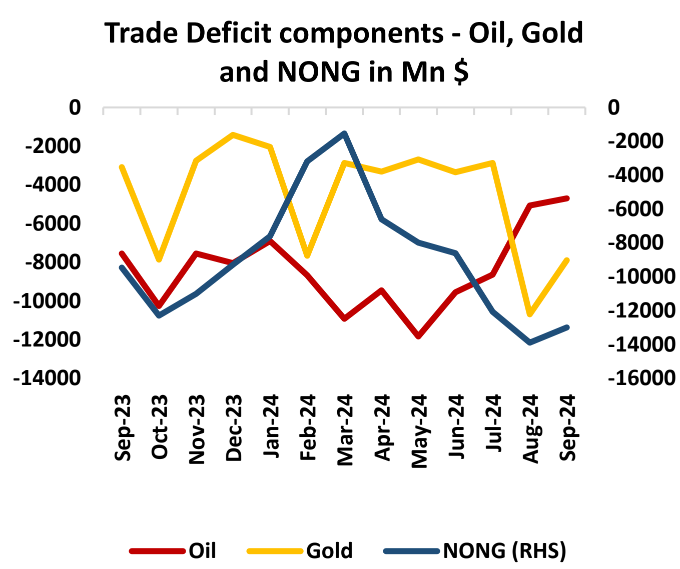

Fig.4: Wider NONG deficit led by machinery, electronics, metals and ores *(in $ mn)*

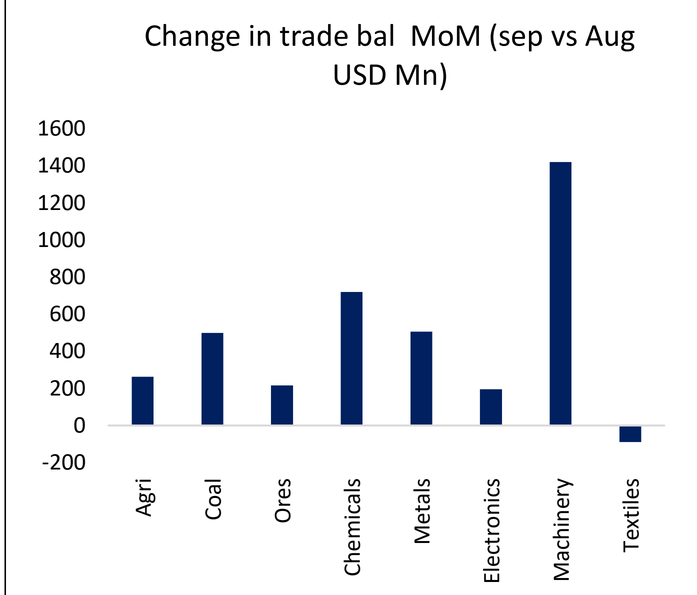

Fig.5: Data Table *(monthly average trade deficit)*

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
Aug-24	34.7	64.4	-29.7	-5.1	-10.7	-13.9
Sep-24	34.6	55.4	-20.8	-7.8	-3.5	-9.4

Source: CEIC and UBI Research

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