

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Akash Deb
akash510@unionbankofindia.bank

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

- Merchandise Trade Deficit widened sharply in Jul'24 to \$23.50bn (highest since October 2023) vis-a-vis our estimate of \$20.7bn.
- In terms of sub-segments, trade deficit in oil narrowed while that for gold was flat. More importantly, there was a sharp deterioration in non-oil non-gold deficit which was the key source of negative surprise for us. (Please refer our report: "[Data Preview: Trade Data & WPI July'24](#)")

C/A Balance likely to clock deficit in Jul-Sep quarter

- Services trade balance remained in surplus and improved to \$13.88 bn in July'24 vis-à-vis \$13.80 bn a month ago and way below the record high levels above \$16 bn clocked in Dec'23 and Jan'24.
- Total trade deficit (goods and services combined) widened near to double digit levels at last seen in Oct'23, to \$9.6 bn.
- As per our estimate, the current account (C/A) balance continued to be in deficit in Q2-FY25 as seen in in Q1-FY25.

Trade deterioration in Jul'24 majorly primarily led by NONG

- As noted above, we had estimated a narrowing in oil deficit in Jul'24 after it spiked last month which was in line with our expectations. Oil deficit narrowed on lead-lag effect. While we expected oil trade deterioration on lagged impact of price spike in April to c.\$90/bbl, however the quantum of impact has significantly cooled after it surprised us after oil deficit spiked to unforeseen levels.
- According to media reports, India likely procured a slightly lower amount of 4.54 mbpd of Brent crude oil in the current month, compared to 4.76 mbpd during June 2024. Crude oil imports from Russia experienced a 6.5% MoM decline in July, with the share in India's total imports of the commodity at c.40%, as reported by energy cargo tracker Vortexa. Going forward, the trend in oil prices are on close watch amid geopolitical tensions while for now they appear to have stabilized at a lower threshold of \$80/bbl.
- Gold deficit stayed flat in July'24 even after the reduction in basic customs duty (BCD) of gold, silver and platinum. It appears that the rise in gold prices to near record levels (avg \$2394/oz in July marginally up from avg \$2333/oz in previous month) likely weighed on demand and overall imports. In the coming months, we see gold deficit staying subdued before festive season kicks in from end-September. 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.
- In a sharp negative surprise, non-oil non-gold (NONG) deficit widened to \$12.06 bn (last seen in Oct'23) vis-à-vis \$8.61 bn a month ago. This was despite downward pressure on commodity prices especially base metals. Sub-segment wise data shows that close to 55% of the MoM widening in NONG deficit was explained by electronics (c.29%), machinery (c.18%) and agri (c.7%). Going forward, trends in commodity prices remain key to watch while lump machinery imports may see some correction in the coming months even as electronics demand may stay strong post customs duty cut in Budget.

Our FY25 C/A deficit forecast remains at 0.9%; oil prices a key risk on 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 (April-July'24) is c.\$21.5bn. This poses slight risk to our C/A deficit forecast.
- Apart from this, we are also watching for risk from higher commodity prices especially oil (our assumption of annual average oil price is \$85/bbl) on any upsurge on geopolitical tensions.
- 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: Current A/C balance Deficit widened in Jul'24 (in \$ mn)

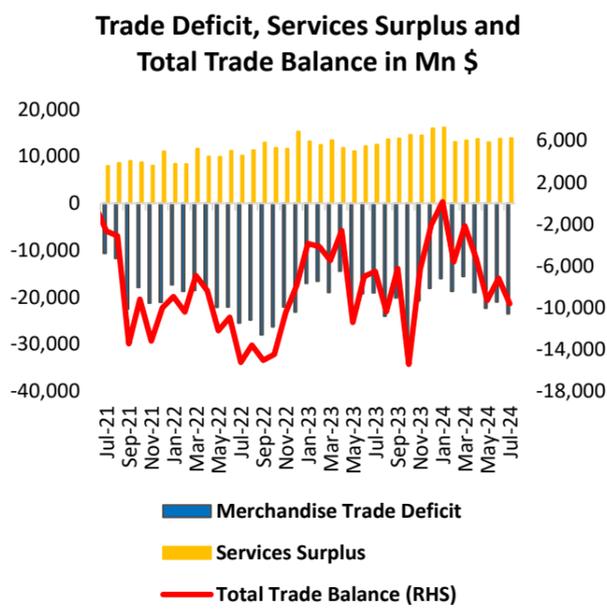


Fig.2: Exports moderated but Imports rose MoM (in \$ mn)

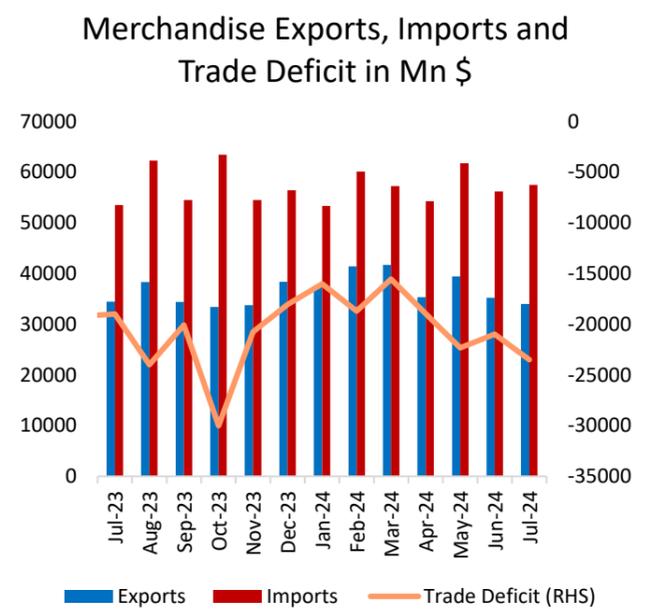


Fig.3: Trade deterioration led by high NONG deficit (in \$ mn)

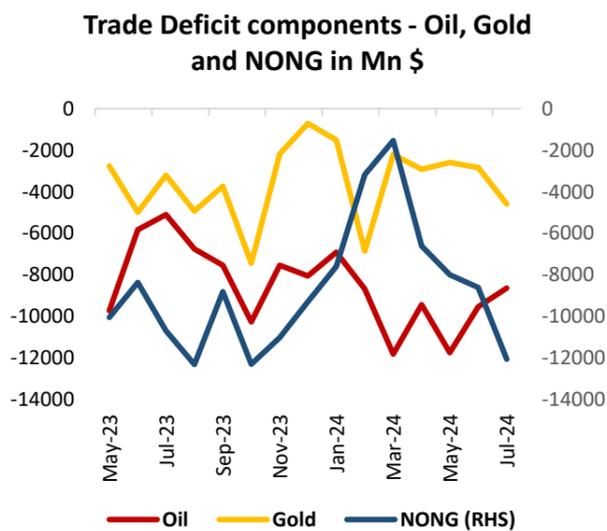


Fig.4: Wider NONG deficit led by mainly electronics and machinery

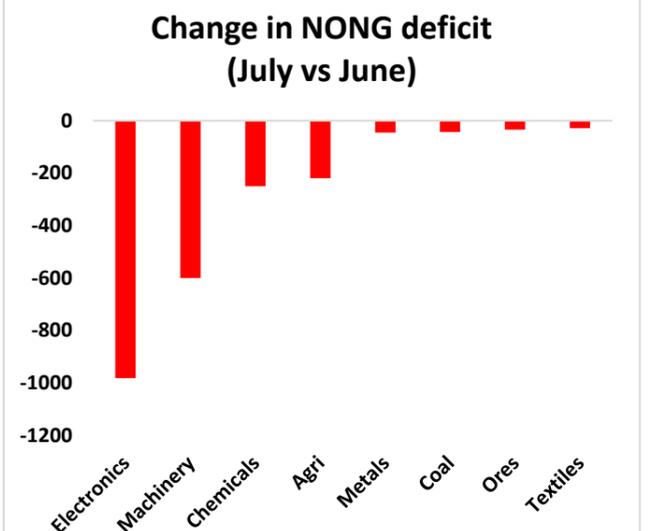


Fig.5: Data Table (monthly average trade deficit)

USD bn	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	56.3	-19.9	-8.0	-3.5	-8.4
Apr-24	35.3	54.3	-19.0	-9.4	-2.9	-6.6
May-24	39.4	61.8	-22.3	-11.7	-2.6	-8.0
Jun-24	35.2	56.2	-21.0	-9.5	-2.8	-8.6
Jul-24	34.0	57.5	-23.5	-8.6	-2.8	-12.1

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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