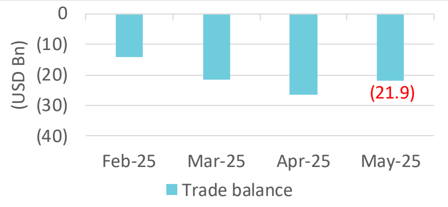
# EXTERNAL TRADE

MACRO MUSINGS

TRADE BALANCE




## Trade deficit narrows in May

Trade deficit in May narrowed to USD21.9bn from USD26.4bn in April, driven by a USD4.3bn reduction in oil trade deficit. Highlights: i) Core exports (ex-oil and gold) grew 6% YoY in May (versus 2% in April) on a 3mma basis. ii) Core imports rose 10% YoY on trend basis, largely due to a low base. iii) Within exports, electronics surged 40% YoY on 3mma basis though this was offset by a 28% YoY rise in electronics imports.

Looking ahead, subdued domestic demand is likely to keep trade deficit in check. However, external risks remain. Escalating geopolitical tensions such as the Iran-Israel war pushing up global oil prices could weigh on imports. Moreover, increasing shipping costs and threats to key trade routes may further weigh on the trade balance.

### Core trade deficit remains largely stable

The trade deficit narrowed by USD4.5bn to USD21.9bn in May led by a USD4.2bn reduction in the oil trade deficit and a USD0.5bn decrease in the gold trade deficit. As a result, the core trade deficit (excluding oil and gold) remained stable at USD11bn. Within the core segment, the chemicals trade deficit doubled to an all-time high of USD2.4bn, possibly reflecting increased dumping by China. In contrast, trade deficits in electronics and engineering goods moderated, narrowing to USD4.9bn and USD2.6bn, respectively.

### Exports recovery stays muted

Merchandise exports contracted by 2% YoY in May, reversing the recovery in April, largely due to a high base effect. However, on a trend basis (3mma)—which smooths out monthly volatility—overall export growth moderated to 2% YoY in May. Core exports (ex oil, gold) improved, rising 5.5% YoY versus 1.6% YoY growth in April. Within exports, electronics continued its strong momentum, soaring 40% YoY. RMG also picked up, expanding 10% YoY in May compared with 7% YoY in April, indicating a modest revival in labour-intensive exports.

### Imports dip, momentum remains robust

Imports decreased 2% YoY in May in contrast to 19% growth in April. However, on a trend basis (3mma), imports expanded 9% YoY led by a sharp pickup in core imports (ex-oil, gold), which grew 10%—the highest in over two years, possibly due to China dumping. Electronics/chemicals imports growth remained elevated at 28%/29% YoY while machinery imports surged 19% YoY due to a weak base (3mma).

### Global uncertainties continue to weigh on exports outlook

Overall, the trade deficit remains contained, with sluggish domestic growth likely to keep import demand in check. However, external risks persist. Geopolitical tensions such as the Iran-Israel war are pushing up global oil prices and shipping costs while disrupting key trade routes across West Asia—posing risks to the trade balance. Uncertainty also arises from the upcoming expiry of the 90-day pause on reciprocal tariffs imposed by the US, which could further affect exports competitiveness, adding to external headwinds.

**Kapil Gupta**
Kapil.Gupta@nuvama.com

**Prateek Parekh**
Prateek.Parekh@nuvama.com

**Tanisha Gupta**
Tanisha.Gupta@nuvama.com

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Abneesh Roy
Head of Research Committee
Abneesh.Roy@nuvama.com

ABNEESH KUMAR ROY

Digitally signed by ABNEESH KUMAR ROY
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