

# India External Sector Watch

February 2017

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# External Sector Summary

**Trade**

- Merchandise exports during February 2017 were valued at $ 24.5B which was 17.8% higher y-o-y. Export growth is showing revival after showing negative growth for prolonged period up to September 2016.
- Merchandise imports during February 2017 were valued at US $ 33.4B representing a growth of 21.8% y-o-y
- Oil imports during February 2017 were valued at US $7.7B , 60% higher than oil imports in the corresponding period last year
- The trade deficit for February 2017 was estimated at US $ 9.5B lower than the deficit of $11.4B during February 2016

**Currency**

- The Indian Rupee continues to have much lower volatility than experienced by other EM currencies reflecting India's improving fundamentals and progress in reducing its external vulnerabilities.

**External Commercial Borrowing**

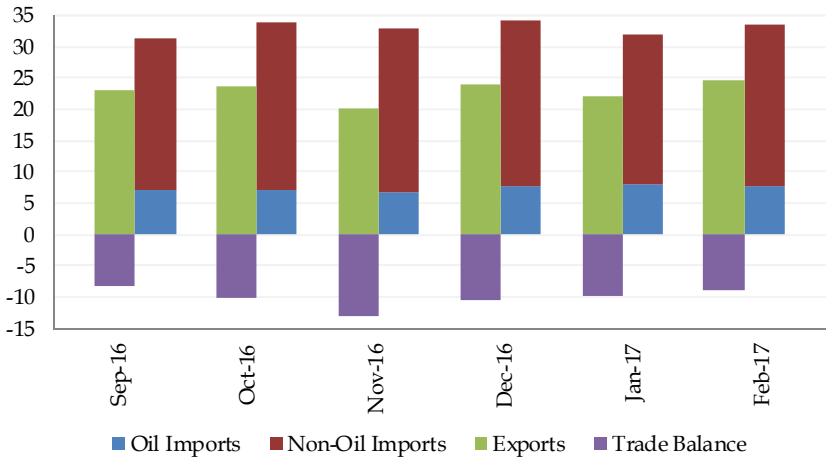
- During January 2017, ECBs totaled $1,804m while FCCBs totaled $0m compared with $1,395m and $0m for the same period the previous year
- In the next three months (Mar-May) $550.4mof ECB and $136.3m of FCCBs will mature

**Foreign Investments**

- Net FII debt investments during February 2017 were $887.4m compared with -$1192m during the corresponding period last year while net FII equity investments equaled $1,475m compared with -$809m same period last year
- Net FDI during January 2017 was $4,242m compared with $5,251m during same period the previous year

# Trade: Export growth has recovered

**Trade ($B)**



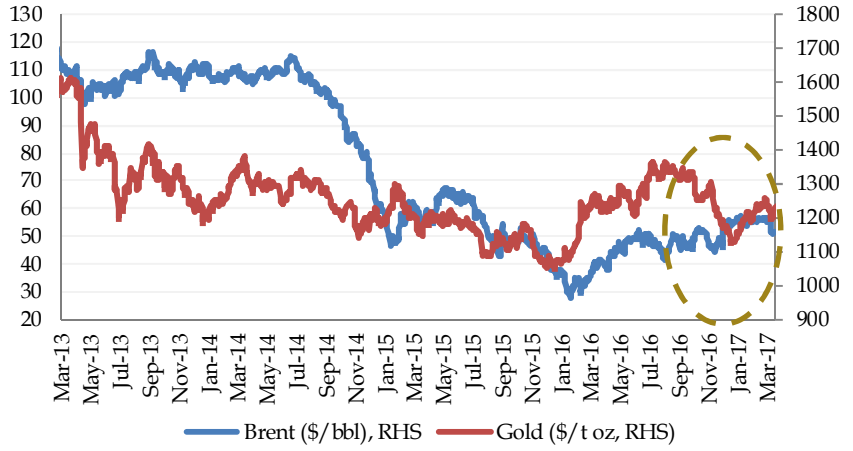

**Top Imports ($M)**

| Commodity Group | Apr-Jan 2016 | Apr-Jan 2017(P) | %Growth | %Share |
|---|---|---|---|---|
| Pertoleum Crude & Products | 73,322 | 69,310 | -5 | 22 |
| Gems & Jewellery | 49,783 | 40,453 | -19 | 13 |
| Electoronics Items | 33,439 | 33,880 | 1 | 11 |
| Chemicals & Related Products | 32,205 | 28,189 | -12 | 9 |
| Machinery | 26,773 | 27,088 | 1 | 9 |
| Base Metals | 21,031 | 18,001 | -14 | 6 |
| Ores & Minerals | 17,651 | 17,118 | -3 | 6 |
| Agri & Allied Products | 17,712 | 18,691 | 6 | 6 |
| Transport Equipments | 12,457 | 13,570 | 9 | 4 |
| Plastic & Rubber Articles | 11,684 | 11,697 | 0 | 4 |
| **Total** | **326,277** | **309,328** | **-5** | **100** |

**Top Exports ($M)**

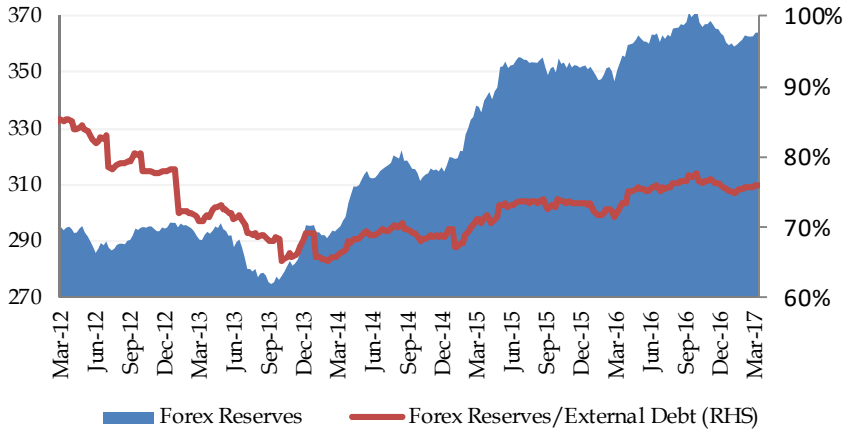
| Commodity Group | Apr-Jan 2016 | Apr-Jan 2017(P) | %Growth | %Share |
|---|---|---|---|---|
| Gems & Jewellery | 31,709 | 35,291 | 11 | 16 |
| Chemicals & Related Products | 26,677 | 27,013 | 1 | 12 |
| Pertoleum Crude & Products | 26,461 | 25,282 | -4 | 11 |
| Agri & Allied Products | 20,314 | 19,568 | -4 | 9 |
| Transport Equipments | 17,920 | 17,896 | 0 | 8 |
| Base Metals | 15,688 | 16,782 | 7 | 8 |
| Machinery | 15,605 | 16,163 | 4 | 7 |
| Plastic & Rubber Articles | 5,397 | 5,233 | -3 | 2 |
| Leather & Leather Manufactures | 4,695 | 4,451 | -5 | 2 |
| Electoronics Items | 4,627 | 4,620 | 0 | 2 |
| **Total** | **218,533** | **221,777** | **1** | **100** |

**Selected Commodity Prices**

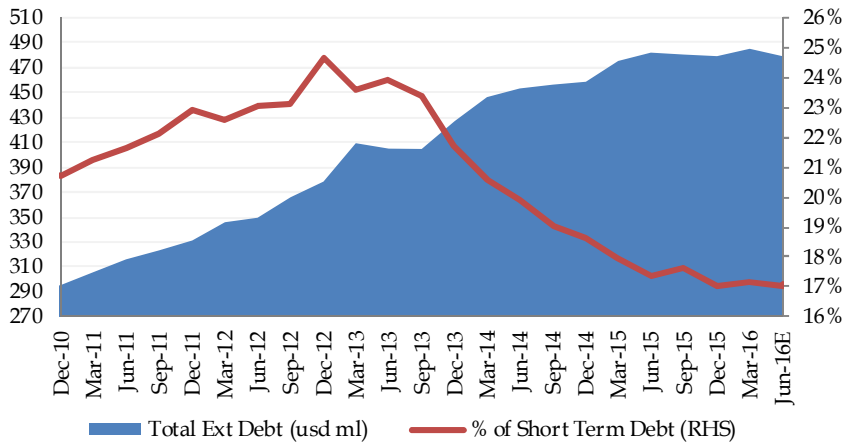


# Forex Reserves: RBI's foreign currency swaps have been unwound

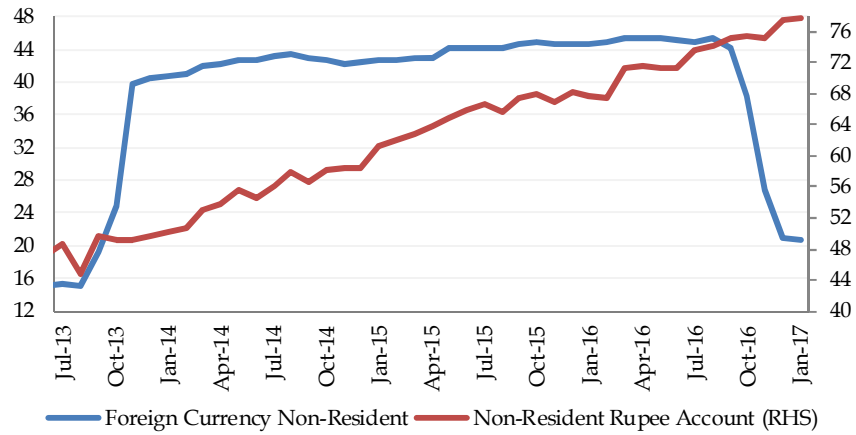
**Foreign Exchange Reserves ($B)**




**External Debt ($B)**




**NRI Deposits Outstanding ($B)**

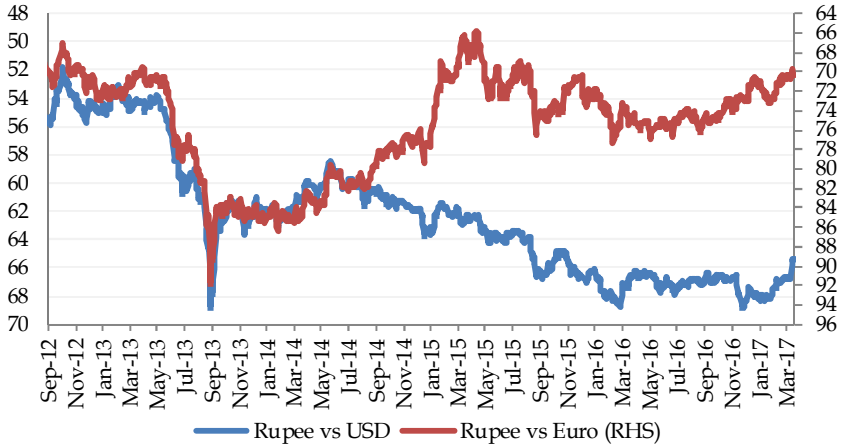



**RBI Foreign Exchange Intervention ($M)**

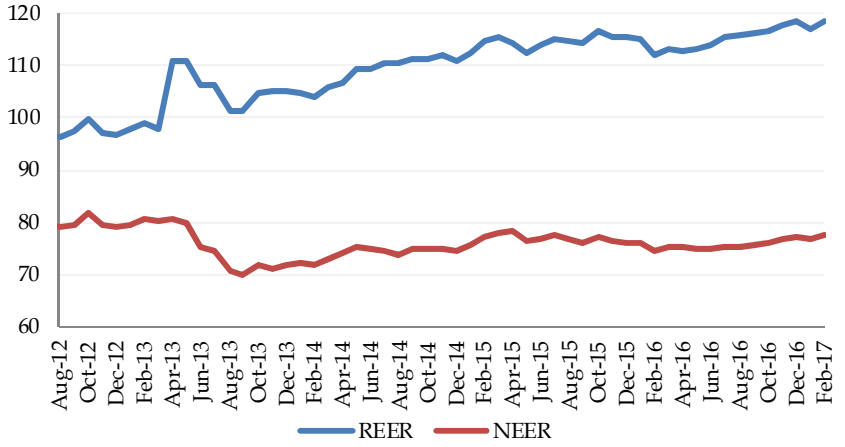
| Period | RBI Gross Sale $ | RBI Gross Purchase of $ | RBI Net Purchase of $ | Outstanding Forward Sales (-)/Purchase (+) |
|---|---|---|---|---|
| Jan-17 | 1,749 | 1,335 | -414 | 501 |
| Dec-16 | 4,534 | 4,997 | 463 | 586 |
| Nov-16 | 21,845 | 19,127 | -2,718 | 2,944 |
| Oct-16 | 9,966 | 9,548 | -418 | 5,632 |
| Sep-16 | 4,392 | 9,041 | 4,649 | 4,890 |
| Aug-16 | 4,220 | 5,070 | 850 | 94 |
| **Last 12 Months** | **67,067** | **76,035** | **8,968** | |

# Currency Picture: INR continues to be overvalued on a REER basis

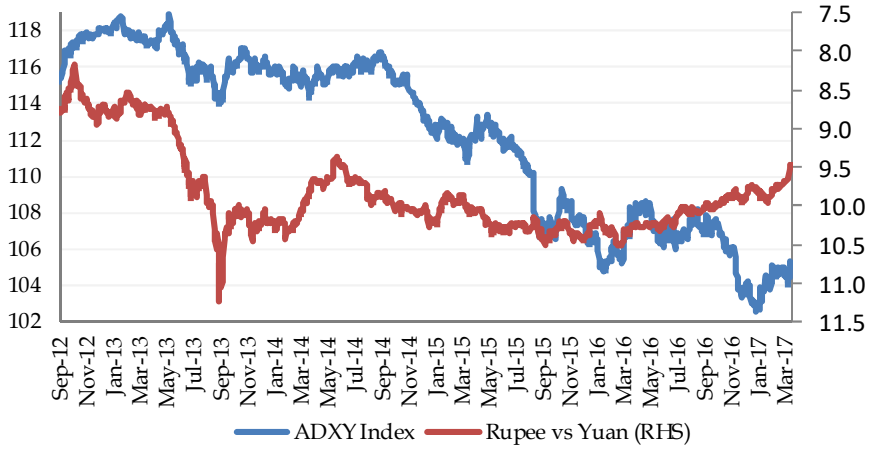
**Rupee Performance**



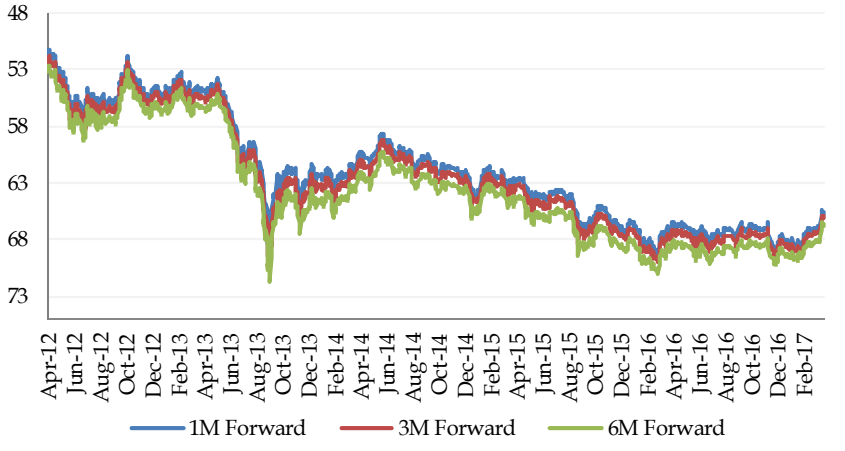

**Real and Nominal Effective Exchange Rate**




**Rupee Performance**

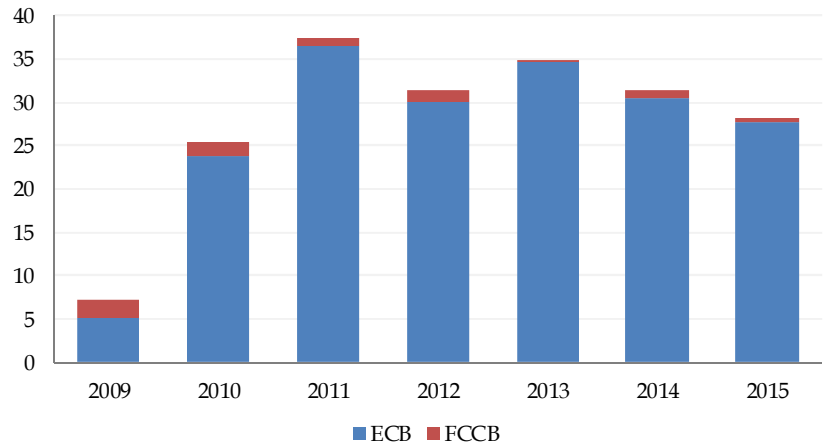



**Rupee Forwards**

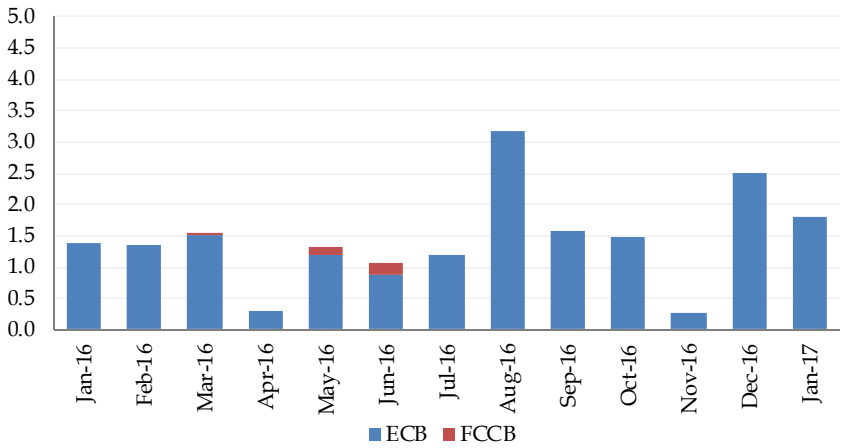


# External Commercial Borrowings: Maturities manageable

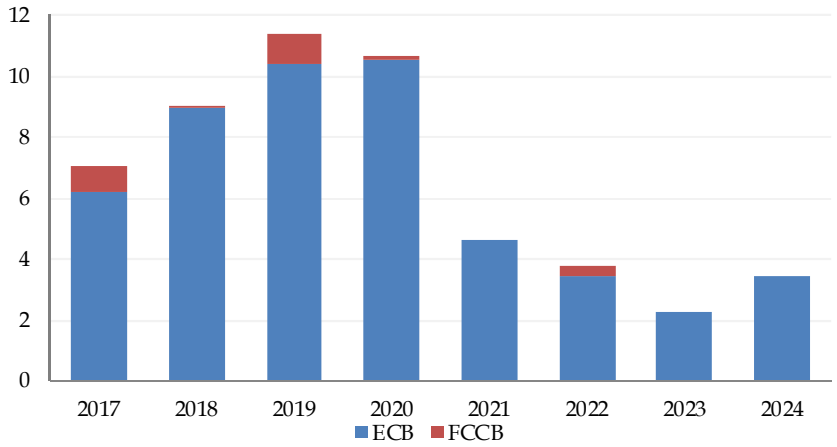
**ECB/FCCB Issuances ($B)**



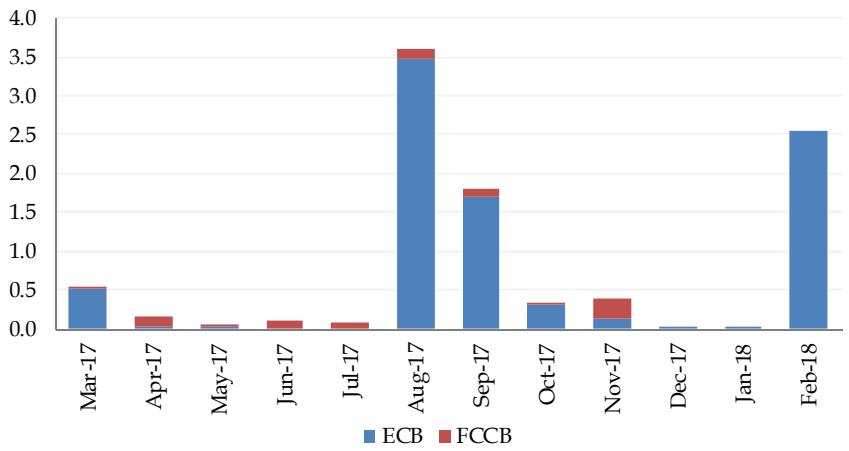

**ECB/FCCB Issuances ($B)**




**ECB/FCCB Maturity Profile ($B)**

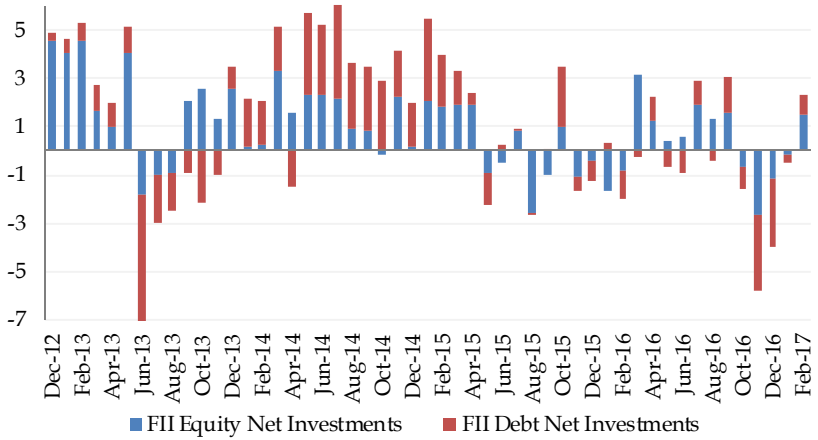



**ECB/FCCB Maturity Profile ($B)**

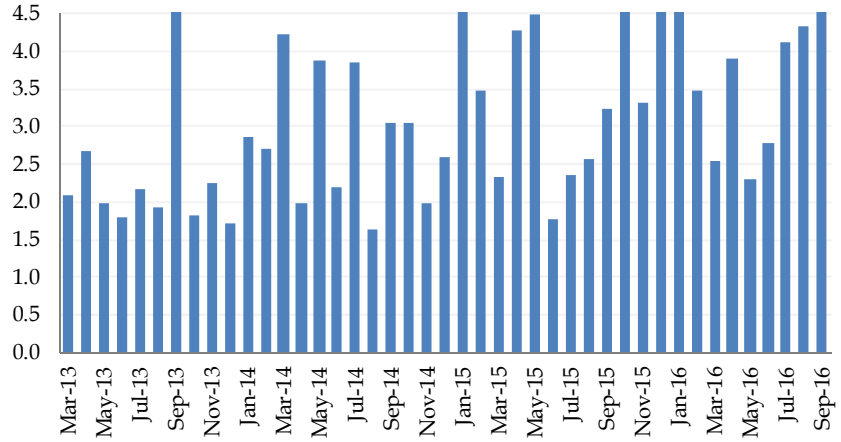


# Foreign Investment: FII outflows slows down

**FII Investments ($B)**




**Net FDI investments ($B)**




**Conclusions**

- India's trade deficit narrowed for the fourth consecutive months on the back of continued improvement in export growth. India's overall external position has improved significantly over the last two years which has reduced its vulnerability to external shocks. Reflecting this improvement the current account deficit for H1 FY17 came in at 0.3% of GDP a significant improvement over the last several years.
- India has benefited from a number of developments which has put it in a better position to deal with rise in global risk aversion and other geopolitical developments. India has steadily built its foreign exchange reserves to comfortable levels while at the same time reducing the share of short term debt as a share of total external debt. However the level of foreign exchange hedging by Indian companies needs improvement to limit forex risks.
- This improvement has now been supplemented with the recent improvement in export growth. India has shown six consecutive months of positive export growth after a prolonged period of declines.
- Going forward we believe external risks remain balanced and we expect the CAD to continue to remain manageable. While the protectionist tendencies of the current U.S administration pose a risk to a country like India that has a trade surplus against the U.S, these risks should be manageable.
- The Rupee has appreciated to four year highs post the recent state assembly elections and relatively dovish FOMC statement. While the RBI may not desire such a rapid appreciation its ability to intervene aggressively is limited as it is wary of increasing domestic liquidity through its intervention given that the banking system is already awash with surplus liquidity.

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# Thank You

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