

India External Sector Watch

January 2017

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External Sector Summary

Trade

- Merchandise exports during January 2017 were valued at $ 22.1B which was 4.3% higher y-o-y. Export growth is showing revival after showing negative growth for prolonged period up to September 2016.
- Merchandise imports during January 2017 were valued at US $ 32.0B representing a growth of 10.7% y-o-y
- Oil imports during January 2017 were valued at US $8.1B , 61.1% higher than oil imports in the corresponding period last year
- The trade deficit for January 2017 was estimated at US $ 9.8B higher than the deficit of $7.7B during January 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

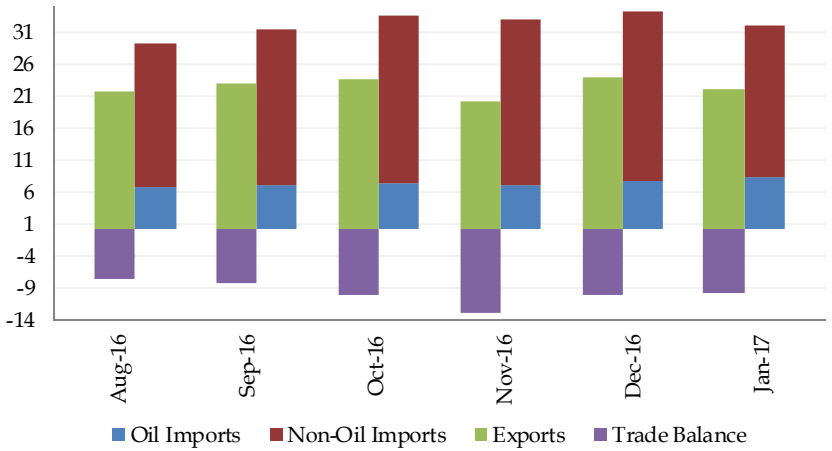
- During December 2016, ECBs totaled $2,486m while FCCBs totaled $0m compared with $2,637m and $397m for the same period the previous year
- In the next three months (Feb-Apr) $555.8mof ECB and $127.8m of FCCBs will mature

Foreign Investments

- Net FII debt investments during January 2017 were -$339.4m compared with $347.7m during the corresponding period last year while net FII equity investments equaled -$172.8m compared with -$1,647.4m same period last year
- Net FDI during December 2016 was $4,260m compared with $5,003m during same period the previous year

Trade: Deficit moved down in January

Trade ($B)



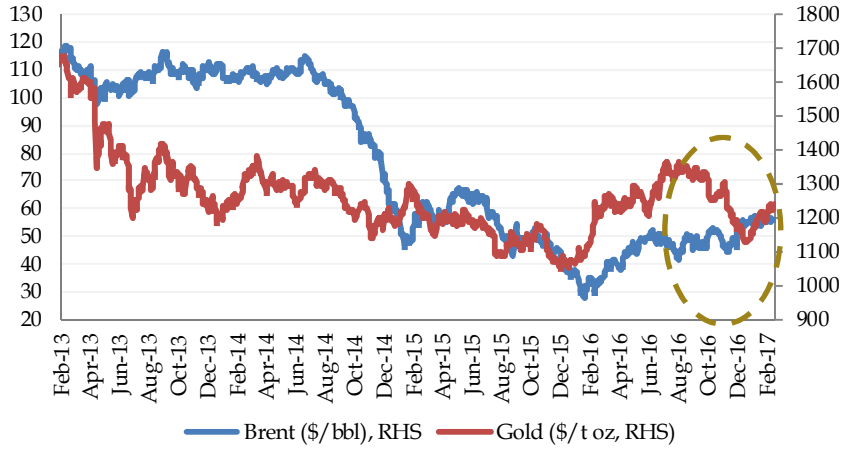
Top Imports ($M)

Commodity Group	Apr-Dec 2015	Apr-Dec 2016(P)	%Growth	%Share
Pertoleum Crude & Products	68,267	61,155	-10	22
Gems & Jewellery	45,012	36,777	-18	13
Electoronics Items	30,377	30,125	-1	11
Chemicals & Related Products	29,340	25,775	-12	9
Machinery	23,992	24,311	1	9
Base Metals	19,079	16,205	-15	6
Ores & Minerals	15,982	14,724	-8	5
Agri & Allied Products	15,935	16,538	4	6
Transport Equipments	11,315	11,889	5	4
Plastic & Rubber Articles	10,663	10,685	0	4
Total	**297,411**	**277,246**	**-7**	**100**

Top Exports ($M)

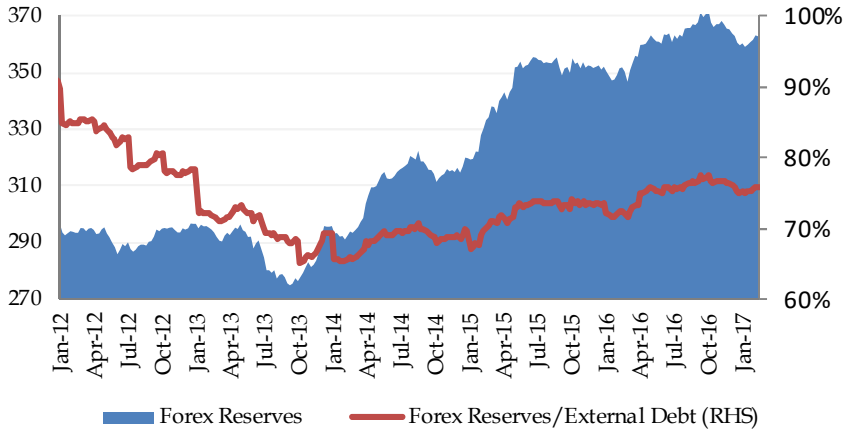
Commodity Group	Apr-Dec 2015	Apr-Dec 2016(P)	%Growth	%Share
Gems & Jewellery	28,567	32,264	13	16
Chemicals & Related Products	23,971	24,371	2	12
Pertoleum Crude & Products	24,374	22,489	-8	11
Agri & Allied Products	18,309	17,526	-4	9
Transport Equipments	16,110	16,291	1	8
Base Metals	14,289	14,610	2	7
Machinery	14,080	14,653	4	7
Plastic & Rubber Articles	4,842	4,713	-3	2
Leather & Leather Manufactures	4,220	4,024	-5	2
Electoronics Items	4,130	4,192	2	2
Total	**197,334**	**199,295**	**1**	**100**

Selected Commodity Prices

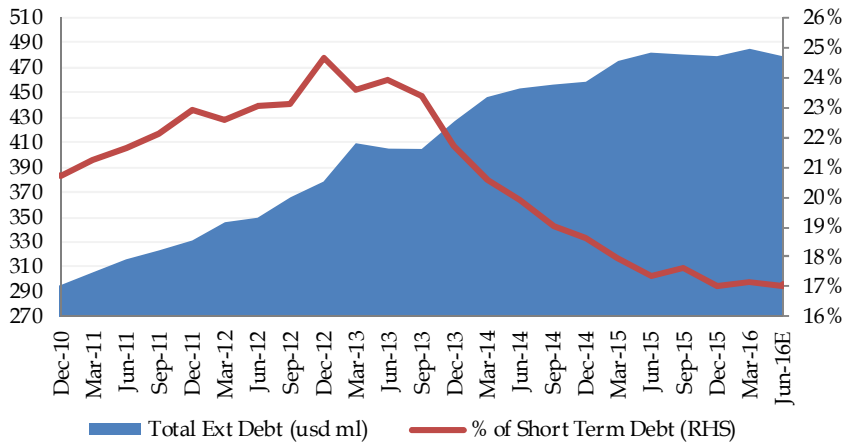


Forex Reserves: RBI in the market to reduce volatility

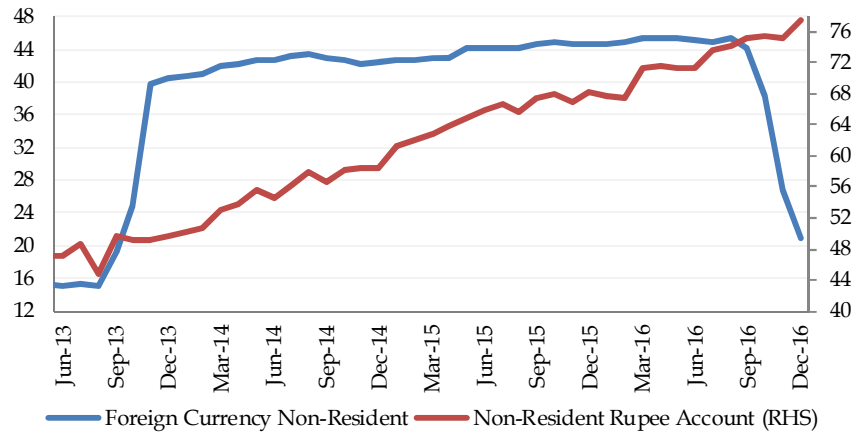
Foreign Exchange Reserves ($B)



External Debt ($B)



NRI Deposits Outstanding ($B)

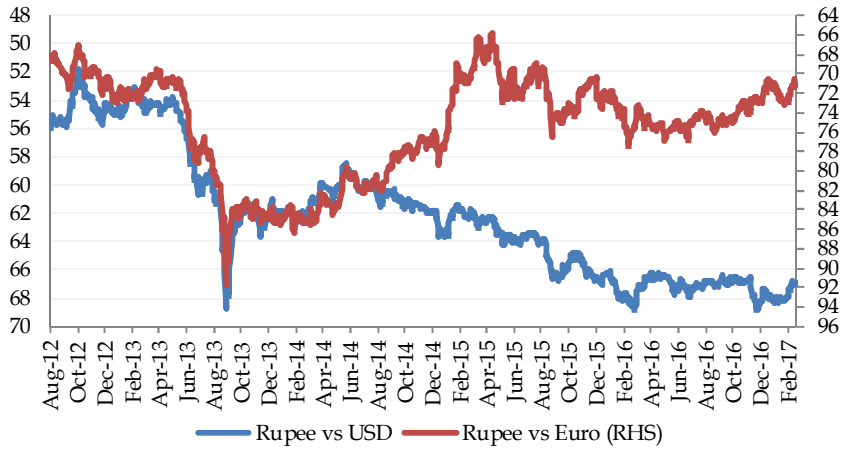


RBI Foreign Exchange Intervention ($M)

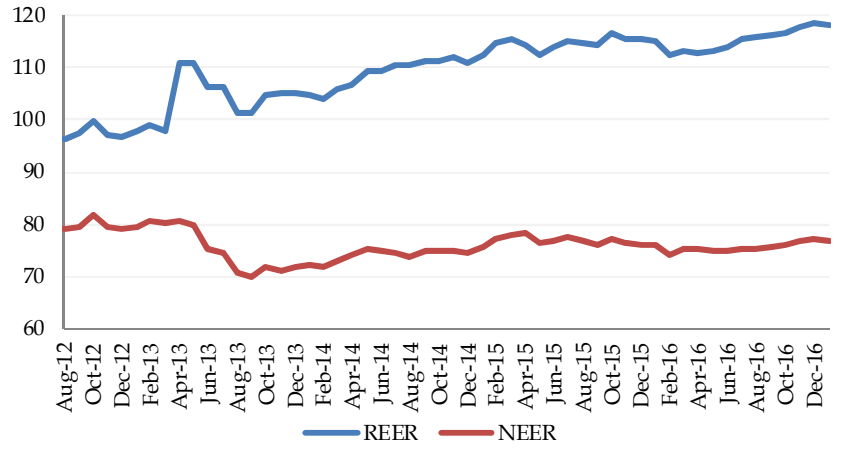
Period	RBI Gross Sale $	RBI Gross Purchase of $	RBI Net Purchase of $	Outstanding Forward Sales (-)/Purchase (+)
Dec-16	4,534	4,997	463	586
Nov-16	21,845	19,127	-2,718	2,944
Oct-16	9,966	9,548	-418	5,632
Sep-16	4,392	9,041	4,649	4,890
Aug-16	4,220	5,070	850	94
Jul-16	3,065	4,465	1,400	-5,066
Last 12 Months	**68,588**	**77,940**	**9,352**	

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

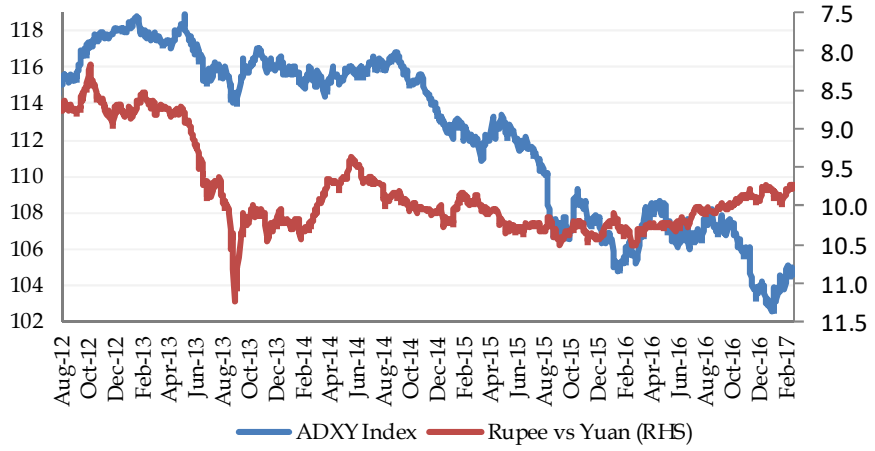
Rupee Performance



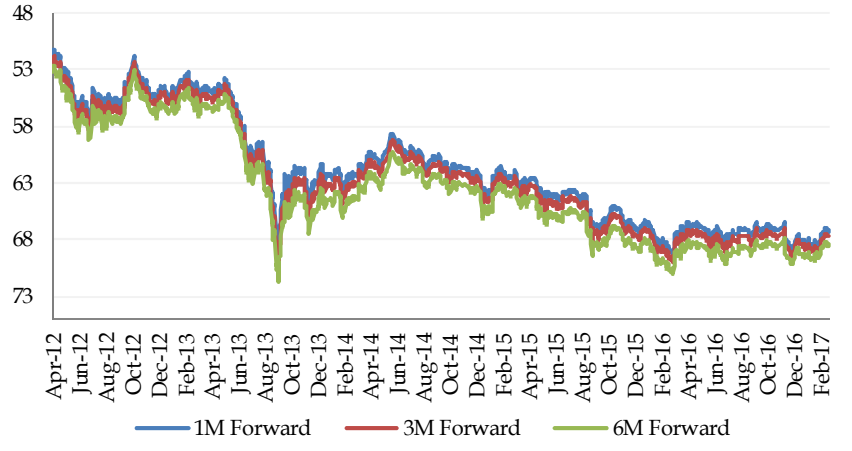
Real and Nominal Effective Exchange Rate



Rupee Performance

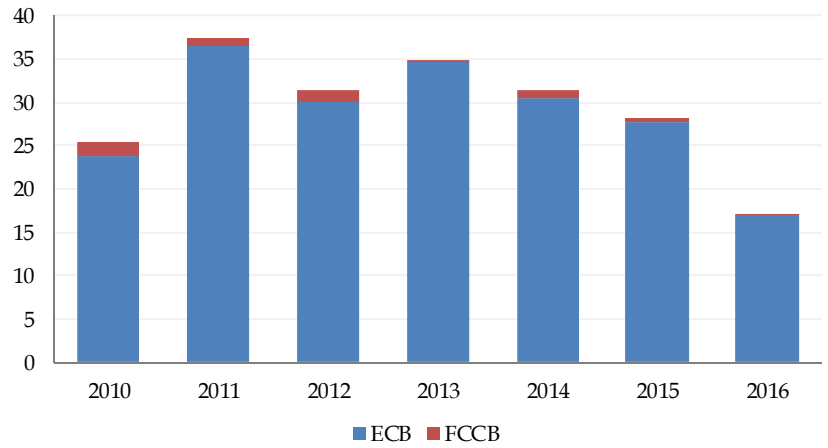


Rupee Forwards



External Commercial Borrowings: Maturities manageable

ECB/FCCB Issuances ($B)



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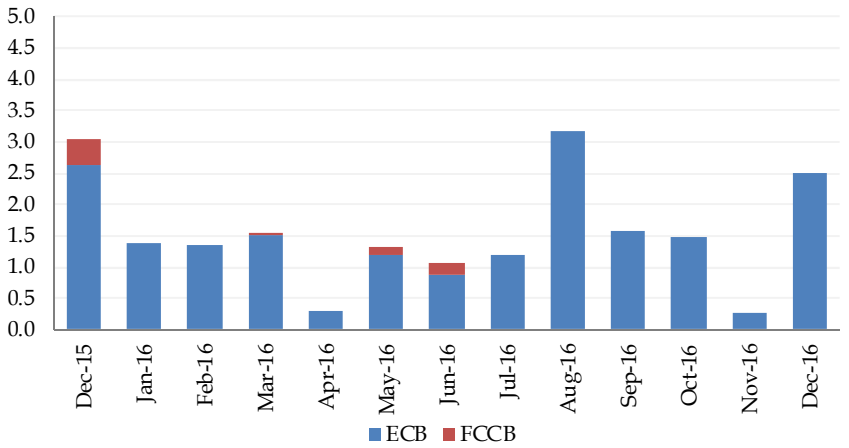
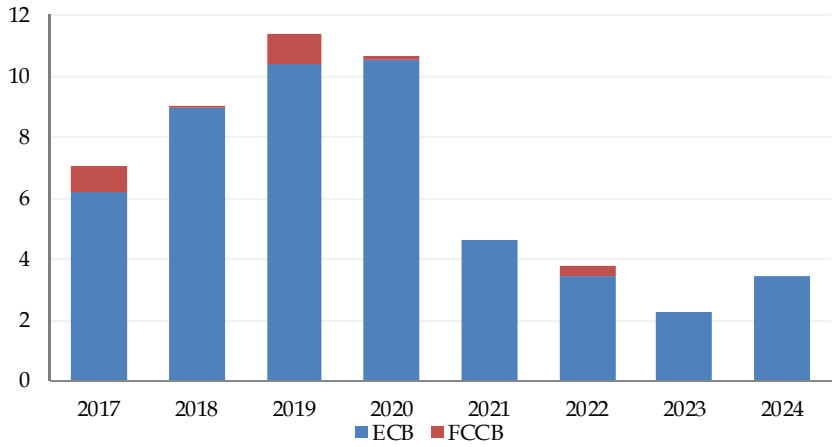
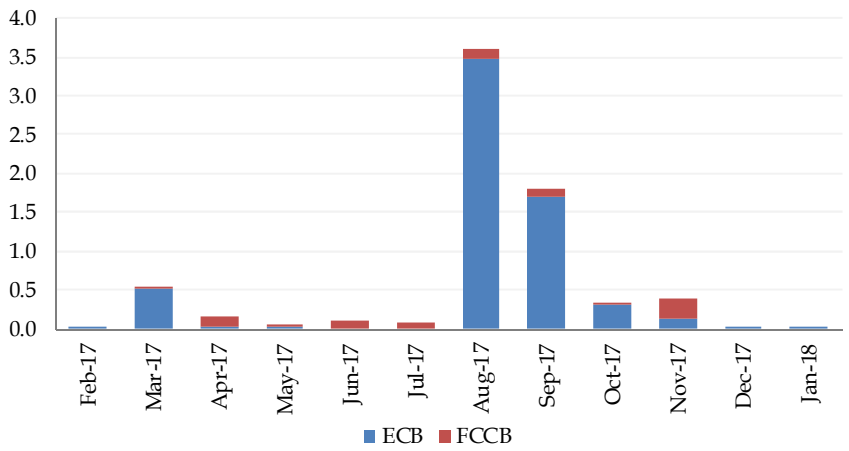


ECB/FCCB Maturity Profile ($B)

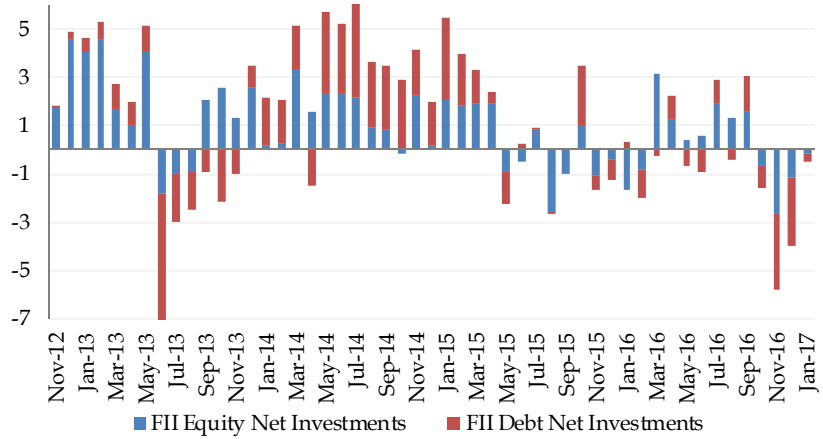


ECB/FCCB Maturity Profile ($B)

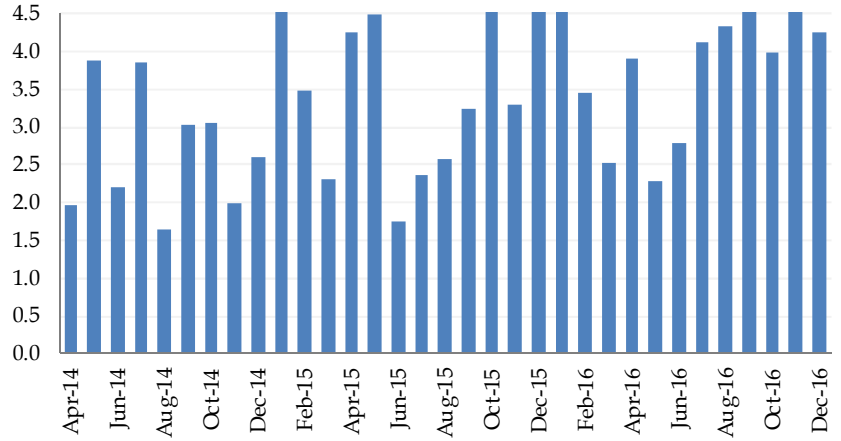


Foreign Investment: FII outflows slows down

FII Investments ($B)



Net FDI investments ($B)



Conclusions

- India's trade deficit narrowed on the back of lower non-oil imports and 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 which gives the RBI more flexibility in managing the currency. 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 five consecutive months of positive export growth after a prolonged period of declines.
- Going forward we believe external risks have increased as the global economy struggles to gain momentum but we expect the CAD to continue to remain manageable. Moreover the new U.S administration's protectionist tendencies also pose a risk to a country like India that has a trade surplus against the U.S.
- Furthermore if the Rupee continues to be significantly overvalued on a REER basis, export growth will suffer offsetting the benefits of lower commodity prices.

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Thank You

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