

India External Sector Watch

March 2017

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External Sector Summary

Trade

- Merchandise exports during March 2017 were valued at $ 29.2B which was 27.6% higher y-o-y. Export growth is showing revival after showing negative growth for prolonged period up to September 2016.
- Merchandise imports during March 2017 were valued at US $ 39.7B representing a growth of 45.3% y-o-y
- Oil imports during March 2017 were valued at US $9.7B , 101.4% higher than oil imports in the corresponding period last year
- The trade deficit for March 2017 was estimated at US $ 10.6B lower than the deficit of $11.9B during March 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

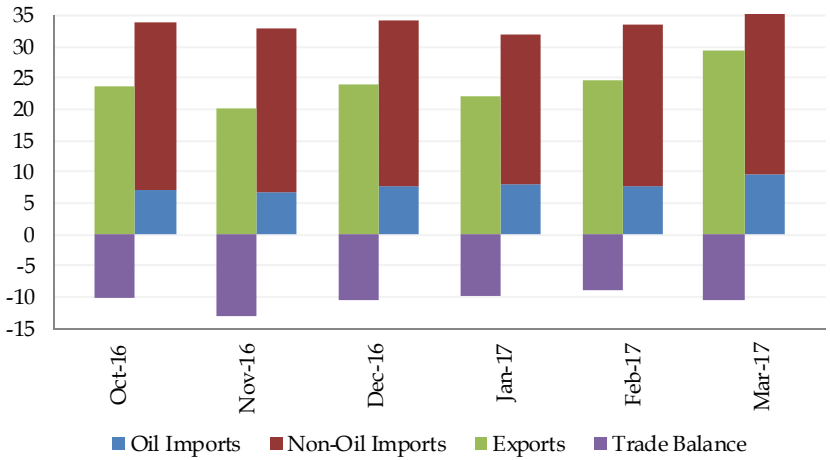
- During January 2017, ECBs totaled $1,804m while FCCBs totaled $0m compared with $1,395m and $0m for the same period the previous year
- In the next three months (Apr-Jun) $59.4mof ECB and $108.6m of FCCBs will mature

Foreign Investments

- Net FII debt investments during March 2017 were $3,850m compared with -$219m during the corresponding period last year while net FII equity investments equaled $4,693 compared with $3,157m same period last year
- Net FDI during February 2017 was $2,032m compared with $2,529m during same period the previous year

Trade: Export growth has recovered

Trade ($B)



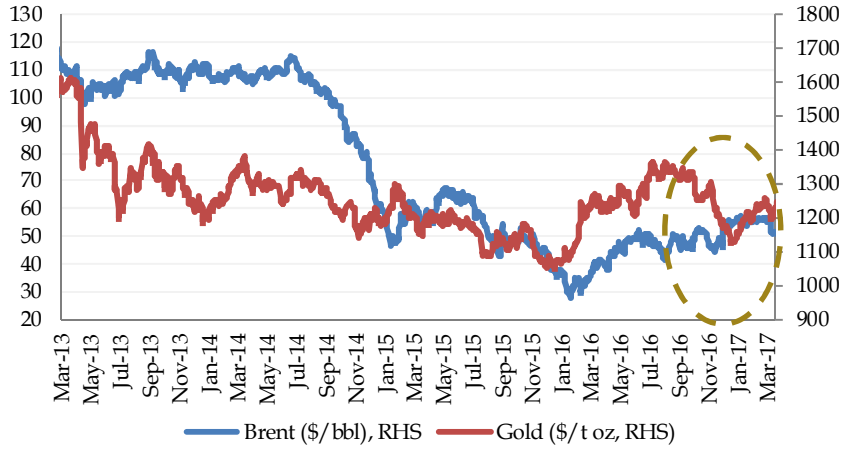
Top Imports ($M)

Commodity Group	Apr-Feb 2016	Apr-Feb 2017(P)	%Growth	%Share
Pertoleum Crude & Products	78,122	77,018	-1	22
Gems & Jewellery	53,347	46,359	-13	13
Electoronics Items	36,437	37,245	2	11
Chemicals & Related Products	34,451	30,740	-11	9
Machinery	30,507	29,884	-2	9
Base Metals	22,781	19,716	-13	6
Ores & Minerals	19,370	19,417	0	6
Agri & Allied Products	19,185	20,903	9	6
Transport Equipments	13,969	15,972	14	5
Plastic & Rubber Articles	12,664	12,767	1	4
Total	**353,696**	**343,532**	**-3**	**100**

Top Exports ($M)

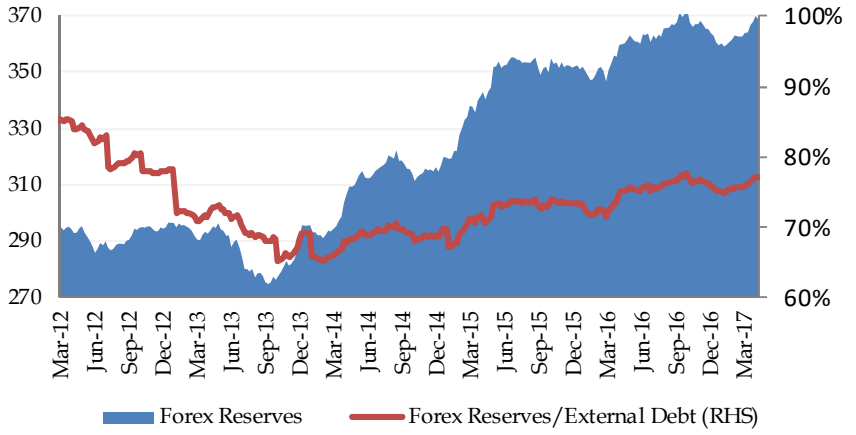
Commodity Group	Apr-Feb 2016	Apr-Feb 2017(P)	%Growth	%Share
Gems & Jewellery	35,631	39,301	10	16
Chemicals & Related Products	29,205	29,567	1	12
Pertoleum Crude & Products	28,395	27,748	-2	11
Agri & Allied Products	22,246	21,831	-2	9
Transport Equipments	19,487	20,528	5	8
Base Metals	16,965	18,937	12	8
Machinery	17,125	17,844	4	7
Plastic & Rubber Articles	5,884	5,791	-2	2
Leather & Leather Manufactures	5,118	4,871	-5	2
Electoronics Items	5,128	5,092	-1	2
Total	**239,378**	**246,162**	**3**	**100**

Selected Commodity Prices

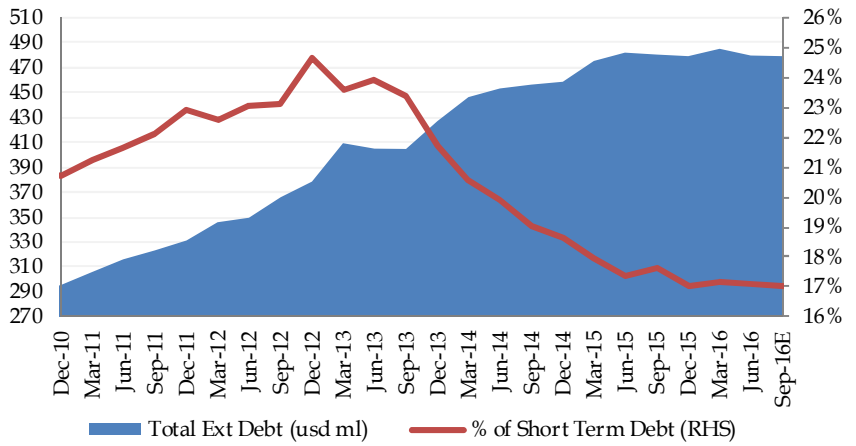


Forex Reserves: RBI's foreign currency swaps have been unwound

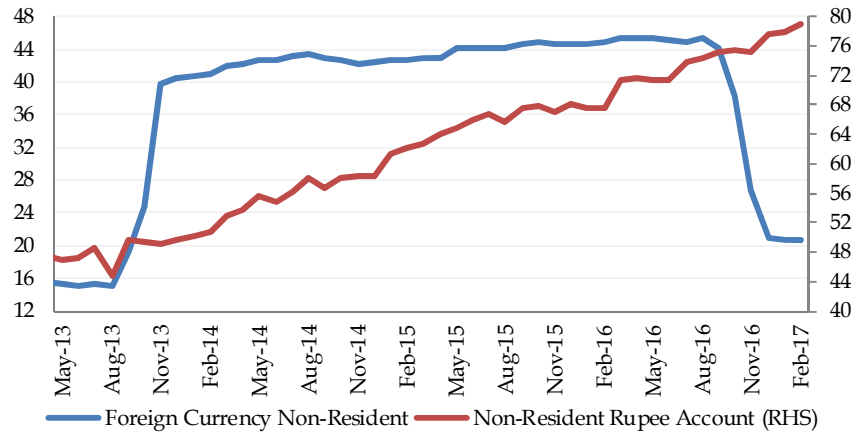
Foreign Exchange Reserves ($B)



External Debt ($B)



NRI Deposits Outstanding ($B)

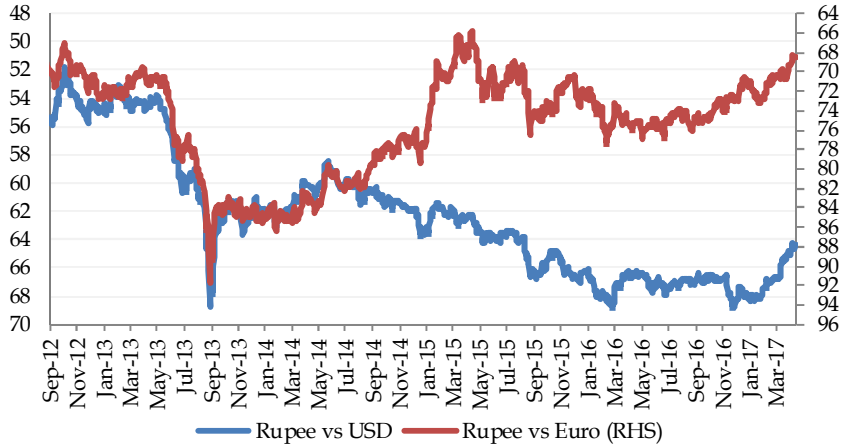


RBI Foreign Exchange Intervention ($M)

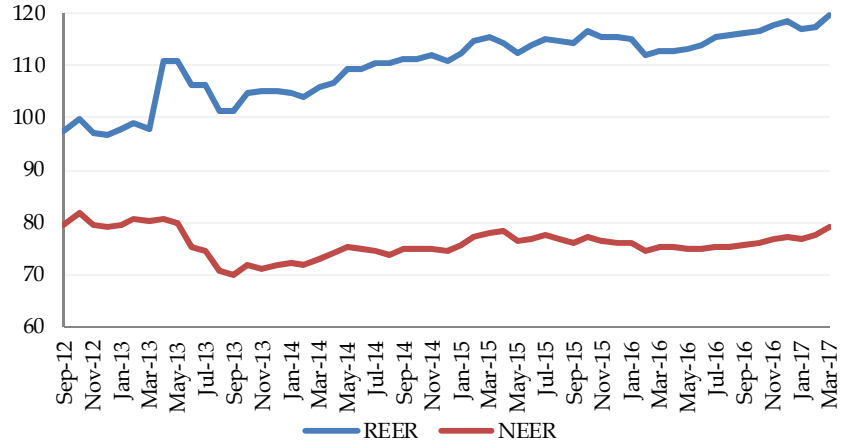
Period	RBI Gross Sale $	RBI Gross Purchase of $	RBI Net Purchase of $	Outstanding Forward Sales (-)/Purchase (+)
Feb-17	1,011	2,201	1,190	2,842
Jan-17	1,749	1,335	-414	501
Dec-16	4,534	4,997	463	586
Nov-16	21,845	19,127	-2,718	2,944
Oct-16	9,966	9,548	-418	5,632
Sep-16	4,392	9,041	4,649	4,890
Last 12 Months	**61,275**	**74,774**	**13,499**	

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

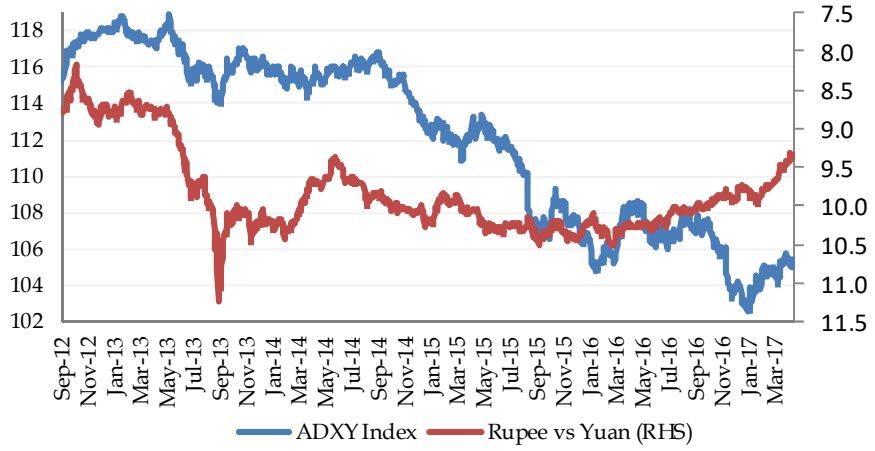
Rupee Performance



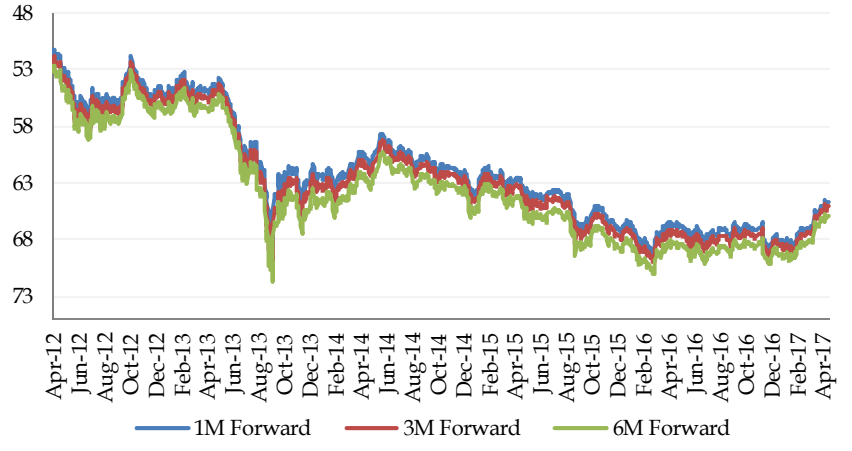
Real and Nominal Effective Exchange Rate



Rupee Performance

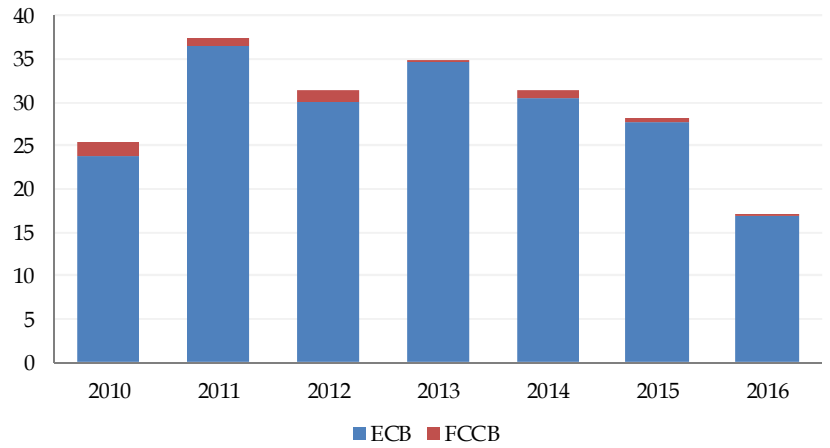


Rupee Forwards



External Commercial Borrowings: Maturities manageable

ECB/FCCB Issuances ($B)



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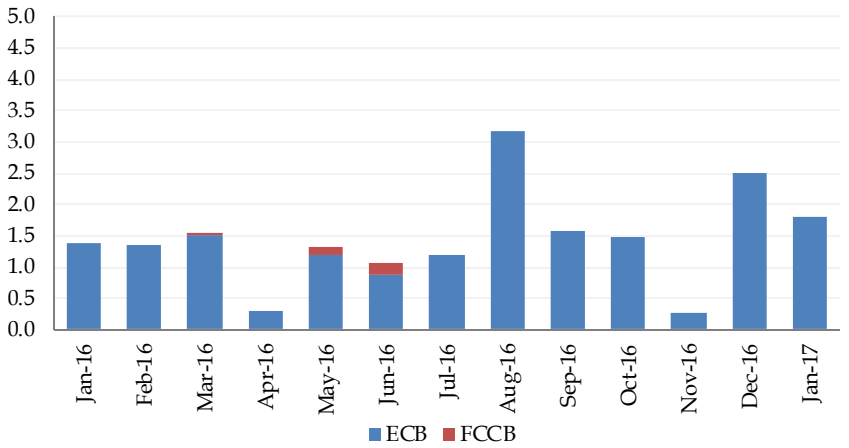
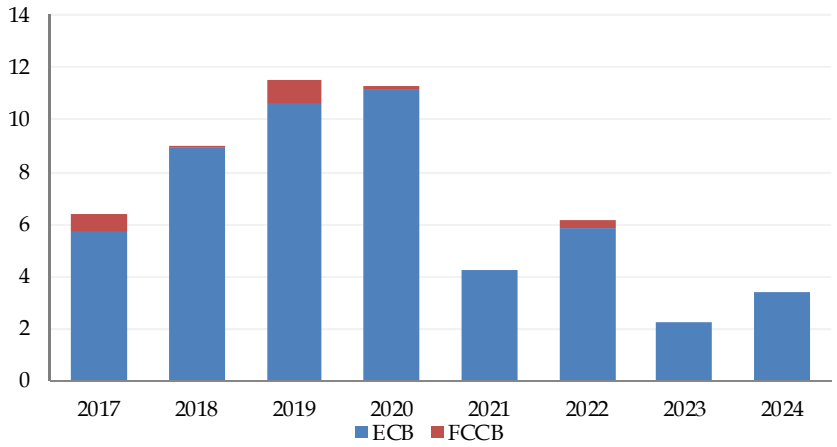
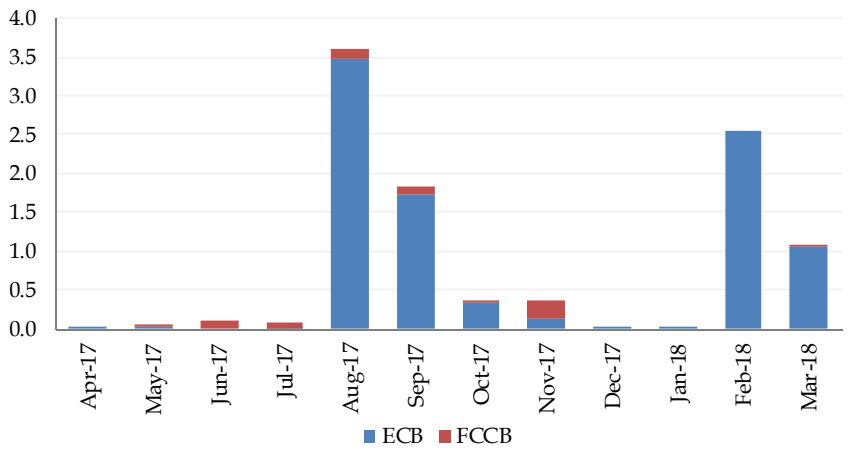


ECB/FCCB Maturity Profile ($B)

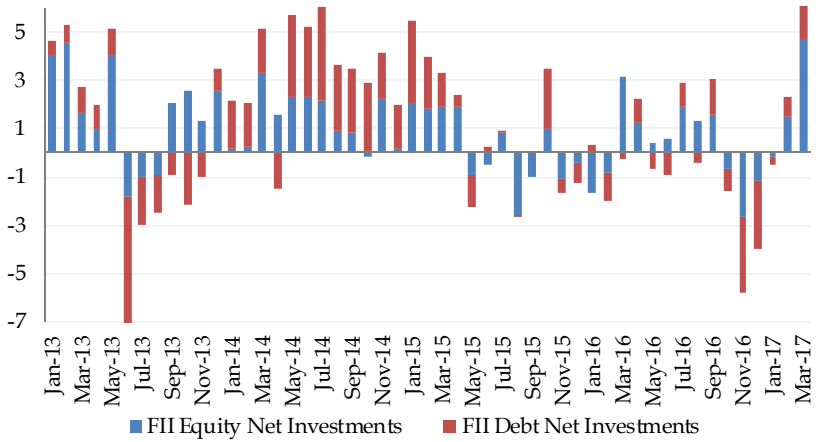


ECB/FCCB Maturity Profile ($B)

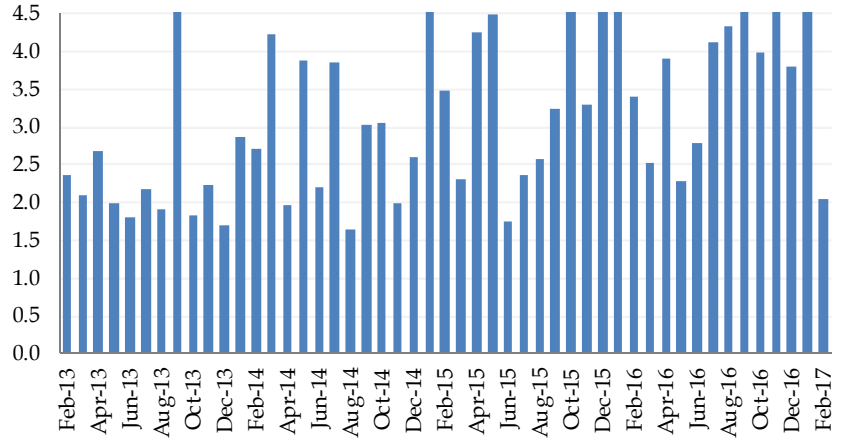


Foreign Investment: FII inflows have accelerated

FII Investments ($B)



Net FDI investments ($B)



Conclusions

- India's trade deficit widened in March on the back of increased imports however the strong export growth performance has also continued. Overall India's 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 the current 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 seven 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. 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. The RBI is currently attempting to tackle the liquidity surplus problem which should give it more flexibility in managing Rupee volatility in the medium term.

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Thank You

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