

India External Sector Watch

October 2017

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External Sector Summary

Trade

- Merchandise exports during October 2017 were valued at $ 23.1B which was a 1.1% lower y-o-y. This was the first decline in y-o-y export growth since July 2016.
- Merchandise imports during October 2017 were valued at US $ 37.1B representing a growth of 4.9% y-o-y
- Oil imports during July 2017 were valued at US $9.3B , 27.9% higher than oil imports in the corresponding period last year
- The trade deficit for October 2017 was estimated at US $ 14.0B higher than the deficit of $11.1B during October 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

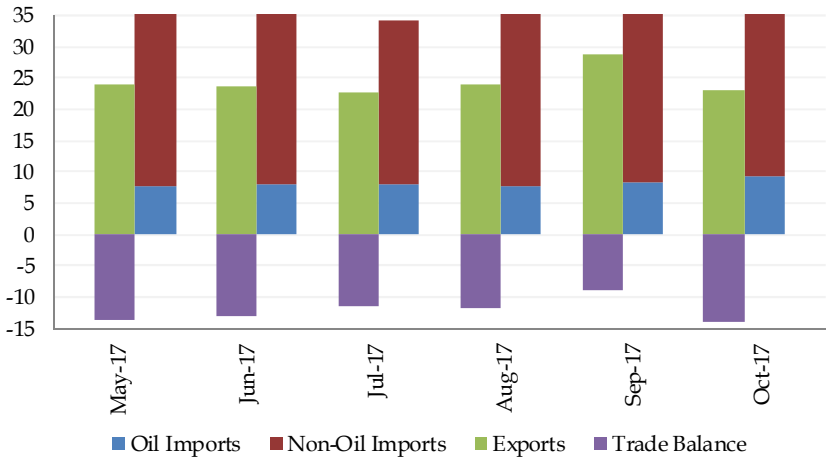
- During September 2017, ECBs totaled $3,281m while FCCBs totaled $0m compared with $1,574m and $0m for the same period the previous year
- In the next three months (Nov-Jan) $35mof ECB and $0m of FCCBs will mature

Foreign Investments

- Net FII debt investments during October 2017 were $2,464m compared with -$900m during the corresponding period last year while net FII equity investments equaled $469 compared with -$644m same period last year
- Net FDI during September 2017 was $2,183m compared with $5,133m during same period the previous year

Trade: Deficit moves up in October

Trade ($B)



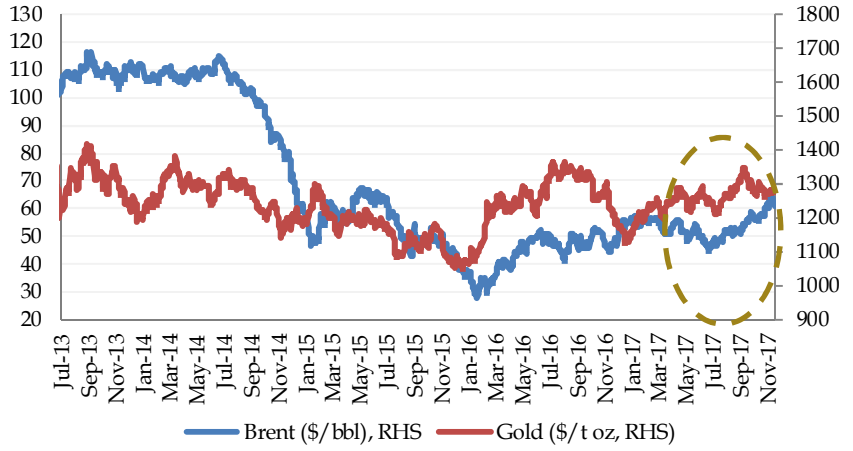
Top Imports ($M)

Commodity Group	Apr-Sep 2016	Apr-Sep 2017(P)	%Growth	%Share
Pertoleum Crude & Products	39,527	46,506	18	21
Gems & Jewellery	20,931	38,508	84	17
Electoronics Items	19,139	25,949	36	12
Machinery	17,586	19,512	11	9
Chemicals & Related Products	15,802	18,409	17	8
Ores & Minerals	9,112	14,079	55	6
Base Metals	10,703	13,344	25	6
Agri & Allied Products	10,088	12,227	21	6
Plastic & Rubber Articles	7,157	8,517	19	4
Transport Equipments	7,448	6,913	-7	3
Total	**175,340**	**220,553**	**26**	**100**

Top Exports ($M)

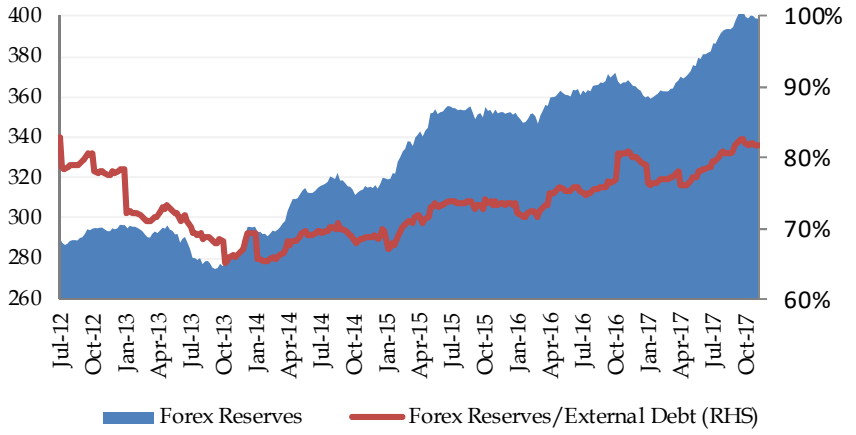
Commodity Group	Apr-Sep 2016	Apr-Sep 2017(P)	%Growth	%Share
Gems & Jewellery	22,220	21,341	-4	15
Chemicals & Related Products	15,937	17,472	10	12
Pertoleum Crude & Products	14,410	16,929	17	12
Agri & Allied Products	11,665	13,229	13	9
Base Metals	9,108	13,110	44	9
Machinery	9,899	11,371	15	8
Transport Equipments	11,026	11,827	7	8
Plastic & Rubber Articles	3,161	3,511	11	2
Electoronics Items	2,812	2,917	4	2
Leather & Leather Manufactures	2,731	2,796	2	2
Total	**131,984**	**146,286**	**11**	**100**

Selected Commodity Prices

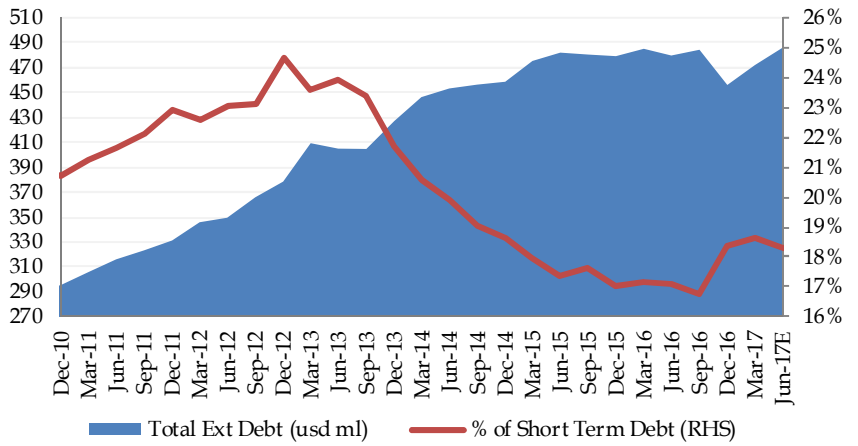


Forex Reserves: RBI's foreign currency swaps have been unwound

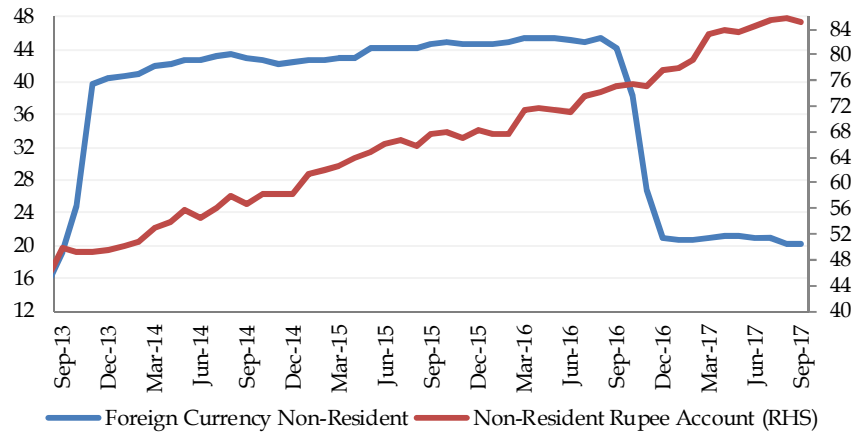
Foreign Exchange Reserves ($B)



External Debt ($B)



NRI Deposits Outstanding ($B)

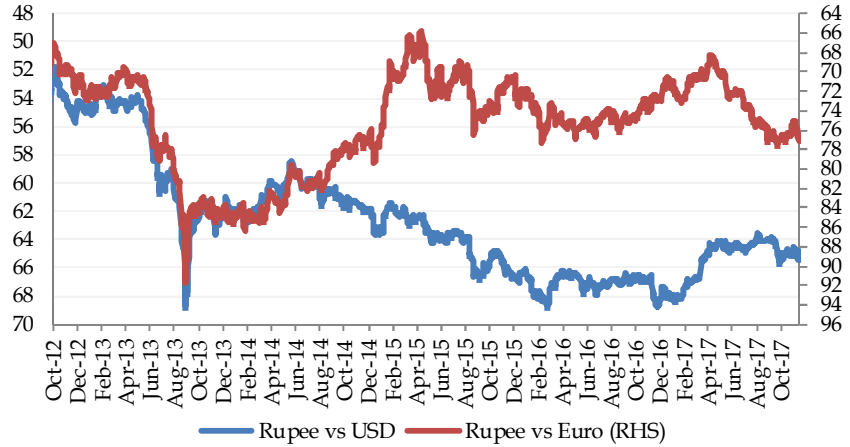


RBI Foreign Exchange Intervention ($M)

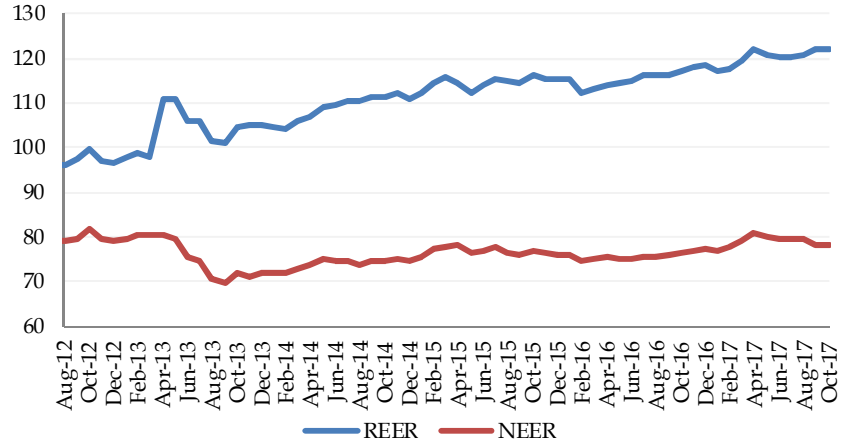
Period	RBI Gross Sale $	RBI Gross Purchase of $	RBI Net Purchase of $	Outstanding Forward Sales (-)/Purchase (+)
Sep-17	2,529	3,788	1,259	31,131
Aug-17	1,330	4,556	3,226	32,823
Jul-17	1,940	4,893	2,953	26,450
Jun-17	1,680	4,971	3,291	17,081
May-17	2,014	7,020	5,006	13,601
Apr-17	1,185	1,751	566	13,553
Last 12 Months	**51,269**	**69,211**	**17,942**	

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

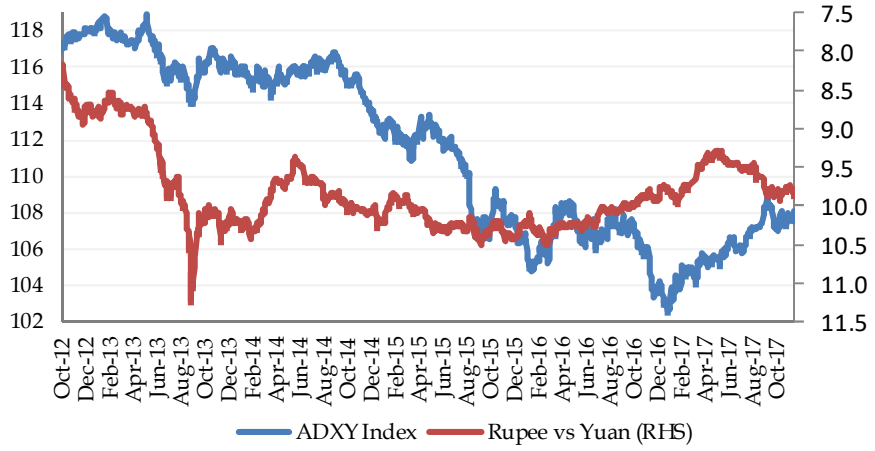
Rupee Performance



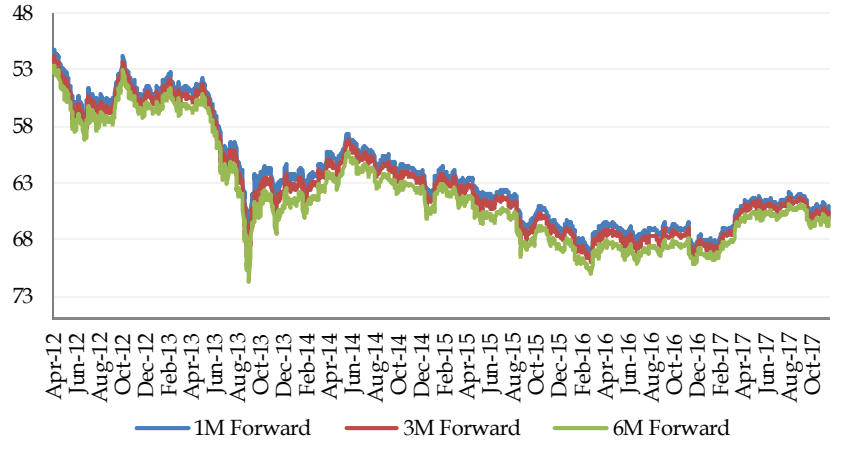
Real and Nominal Effective Exchange Rate



Rupee Performance

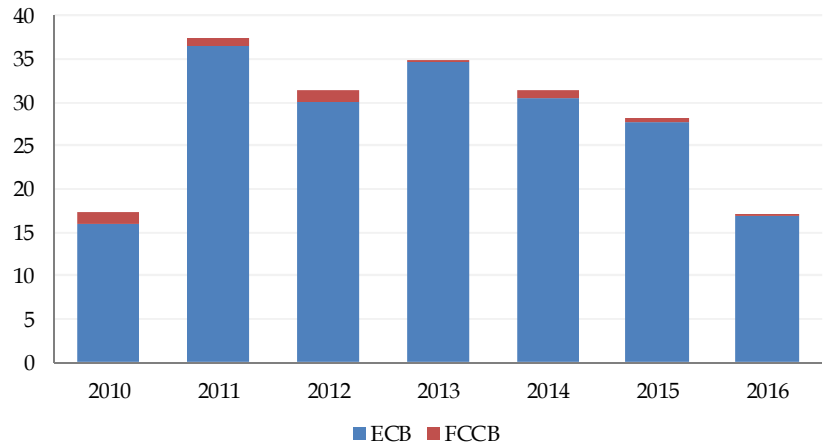


Rupee Forwards



External Commercial Borrowings: Maturities manageable

ECB/FCCB Issuances ($B)



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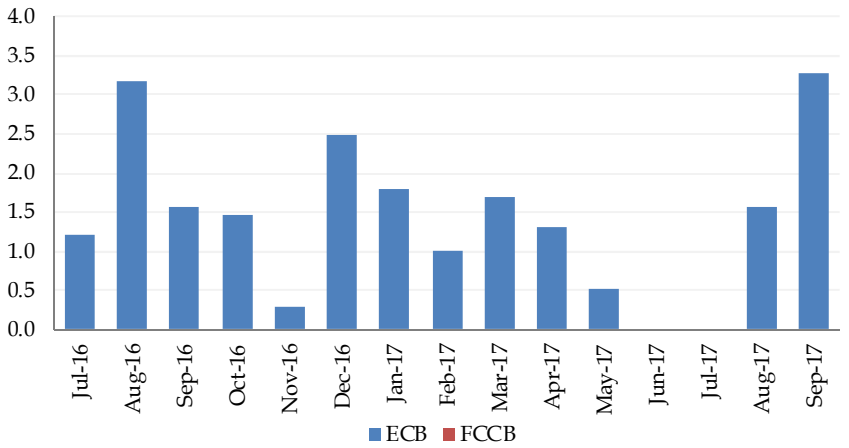
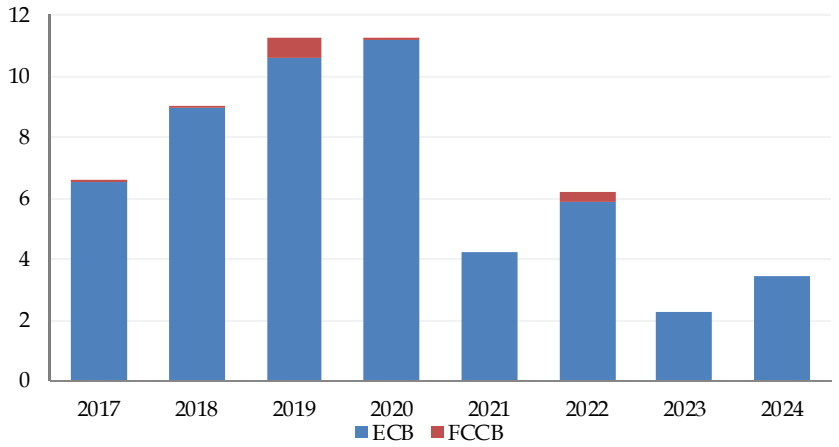
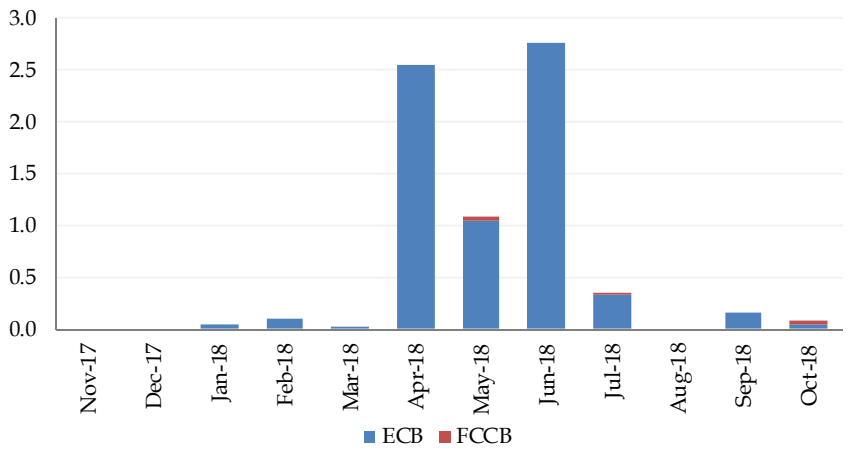


ECB/FCCB Maturity Profile ($B)

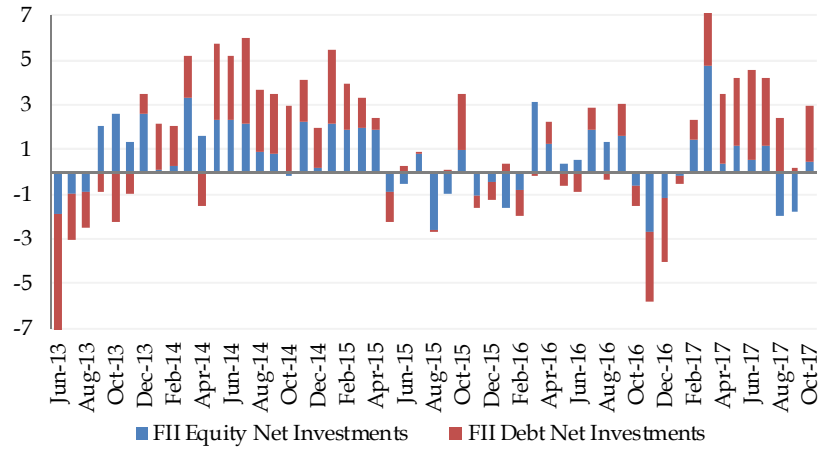


ECB/FCCB Maturity Profile ($B)

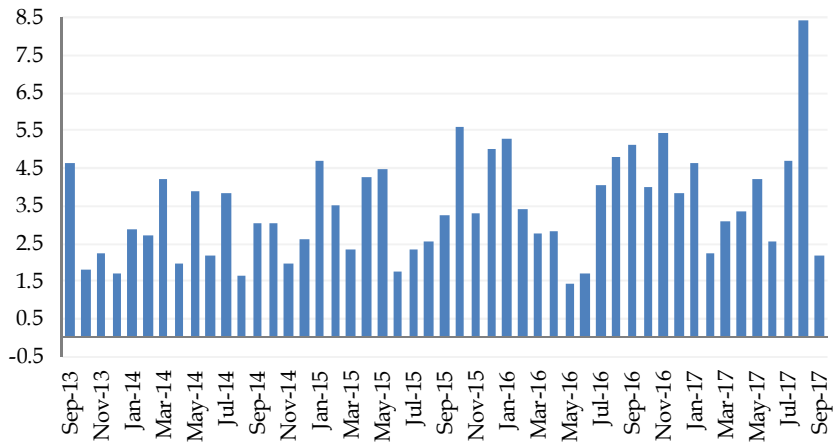


Foreign Investment: FDI inflows remain robust

FII Investments ($B)



Net FDI investments ($B)



Conclusions

- India's trade deficit expanded in October on the back of higher oil imports and lower export growth performance . Despite the October uptick in the trade deficit, 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 Q4FY17 came in at 0.6% of GDP and for FY17 as a whole at 0.7% of GDP.
- India continues to benefit from a number of developments which has put it in a better position to deal with a 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 we still believe the level of foreign exchange hedging by Indian companies needs improvement to limit forex risks.
- This improvement has now been supplemented with sustained improvement in export growth. Export growth slowed down in October but we do not expect this slowdown to be sustained. India has shown ten consecutive months of positive export growth until September after a prolonged period of declines. In addition Indian's services exports remain resilient despite various challenges.
- Although the trade deficit is higher than its recent lows we believe external risks remain balanced and we expect the CAD to continue to remain manageable. Export growth has remained robust despite a strong Rupee. As the domestic liquidity situation is stabilizes the RBI will have more flexibility in managing Rupee volatility in the medium term. Meanwhile the stable currency continues to attract FII inflows into Indian debt as it presents an attractive carry opportunity.

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Thank You

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