

India External Sector Watch

September 2017

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External Sector Summary

Trade

- Merchandise exports during September 2017 were valued at $ 28.6B which was 25.6% higher y-o-y. Export growth is showing revival after showing negative growth for prolonged period up to September 2016.
- Merchandise imports during September 2017 were valued at US $ 37.6B representing a growth of 18.1% y-o-y
- Oil imports during July 2017 were valued at US $8.1B , 18.5% higher than oil imports in the corresponding period last year
- The trade deficit for September 2017 was estimated at US $ 9.0B in line with the deficit of $9.1B during September 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

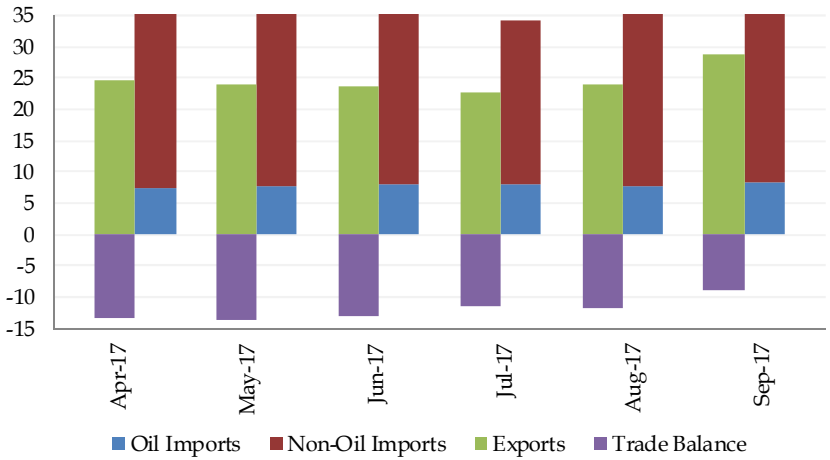
- During August 2017, ECBs totaled $1,565m while FCCBs totaled $0m compared with $3,173m and $0m for the same period the previous year
- In the next three months (Nov-Jan) $35mof ECB and $0m of FCCBs will mature

Foreign Investments

- Net FII debt investments during September 2017 were $219m compared with -$393m during the corresponding period last year while net FII equity investments equaled -$1,752 compared with $1,357m same period last year
- Net FDI during August 2017 was $8,438m compared with $4,064m during same period the previous year

Trade: Export growth has recovered

Trade ($B)



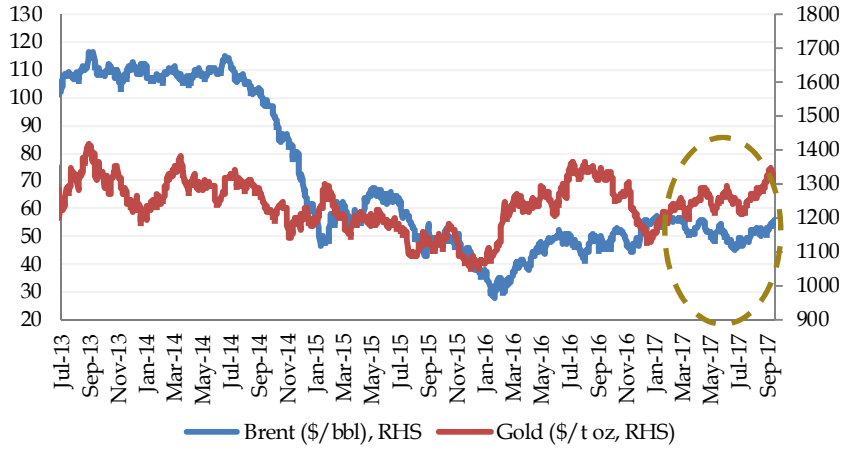
Top Imports ($M)

Commodity Group	Apr-Aug 2016	Apr-Aug 2017(P)	%Growth	%Share
Pertoleum Crude & Products	32,616	38,325	18	21
Gems & Jewellery	16,916	33,157	96	18
Electoronics Items	15,557	21,021	35	11
Machinery	14,835	16,260	10	9
Chemicals & Related Products	12,923	15,061	17	8
Ores & Minerals	7,544	11,733	56	6
Base Metals	8,903	10,935	23	6
Agri & Allied Products	8,223	10,012	22	5
Plastic & Rubber Articles	5,960	7,063	19	4
Transport Equipments	5,877	5,908	1	3
Total	**143,501**	**182,977**	**28**	**100**

Top Exports ($M)

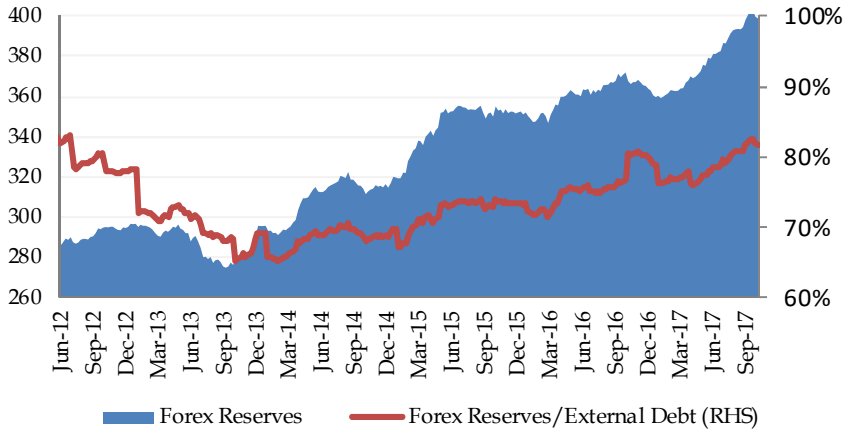
Commodity Group	Apr-Aug 2016	Apr-Aug 2017(P)	%Growth	%Share
Gems & Jewellery	17,757	16,561	-7	14
Pertoleum Crude & Products	11,836	13,943	18	12
Chemicals & Related Products	13,274	14,093	6	12
Agri & Allied Products	9,822	10,989	12	9
Base Metals	7,372	10,418	41	9
Machinery	8,283	9,174	11	8
Transport Equipments	9,463	9,611	2	8
Plastic & Rubber Articles	2,629	2,875	9	2
Electoronics Items	2,333	2,376	2	2
Leather & Leather Manufactures	2,312	2,307	0	2
Total	**109,215**	**118,057**	**8**	**100**

Selected Commodity Prices

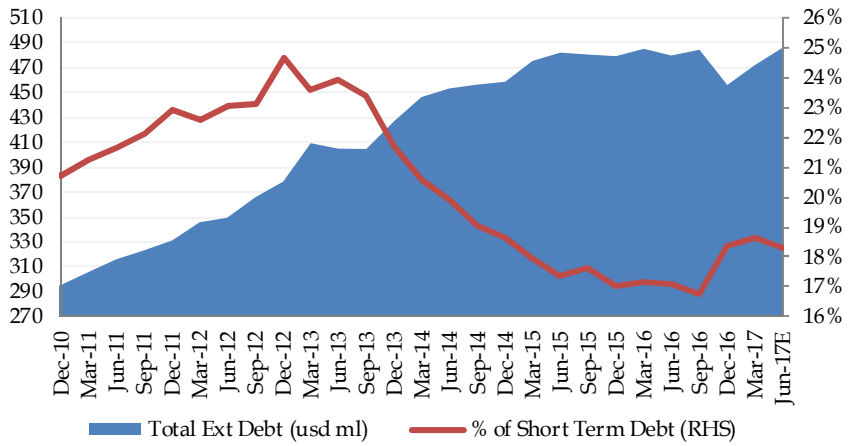


Forex Reserves: RBI's foreign currency swaps have been unwound

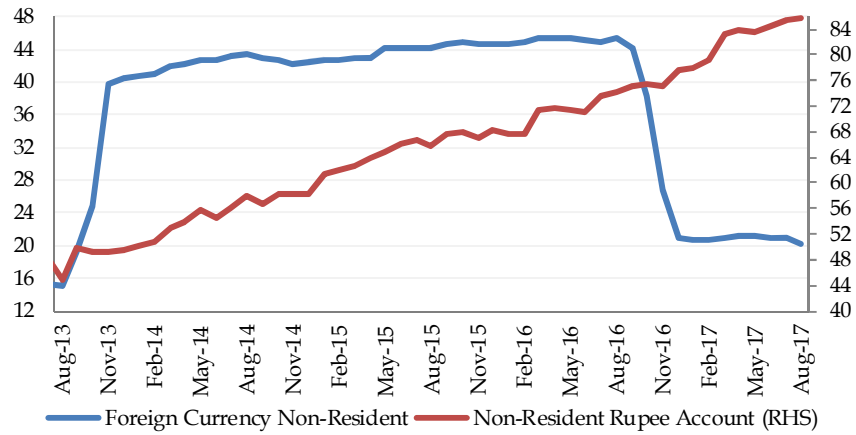
Foreign Exchange Reserves ($B)



External Debt ($B)



NRI Deposits Outstanding ($B)

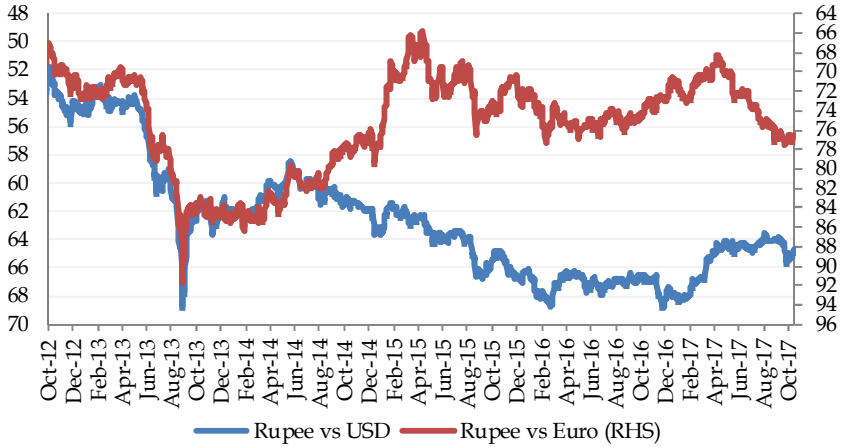


RBI Foreign Exchange Intervention ($M)

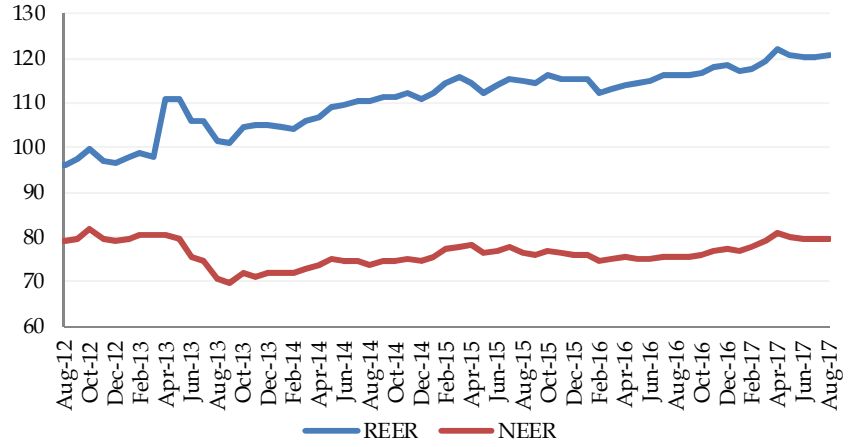
Period	RBI Gross Sale $	RBI Gross Purchase of $	RBI Net Purchase of $	Outstanding Forward Sales (-)/Purchase (+)
Aug-17	1,330	4,556	3,226	32,823
Jul-17	1,940	4,893	2,953	26,450
Jun-17	1,680	4,971	3,291	17,081
May-17	2,014	7,020	5,006	13,601
Apr-17	1,185	1,751	566	13,553
Mar-17	1,486	5,024	3,538	10,835
Last 12 Months	**53,132**	**74,464**	**21,332**	

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

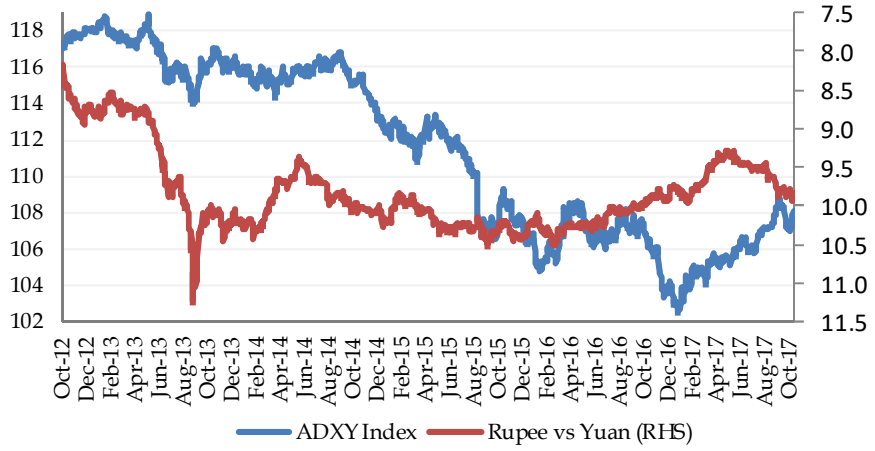
Rupee Performance



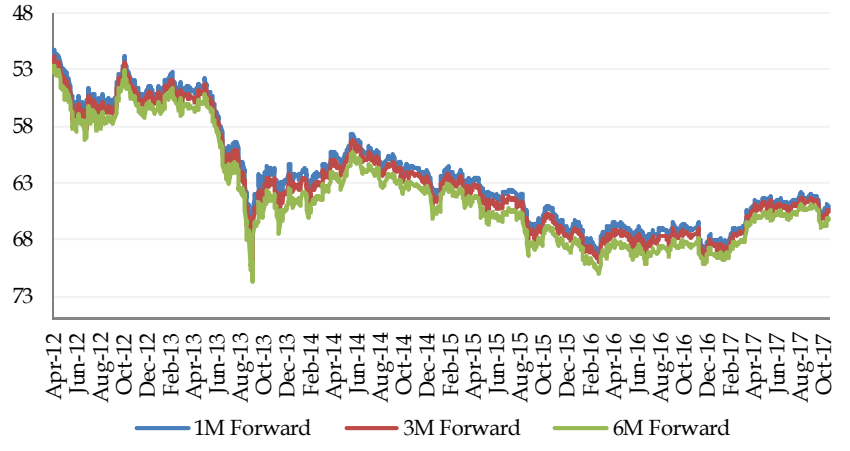
Real and Nominal Effective Exchange Rate



Rupee Performance

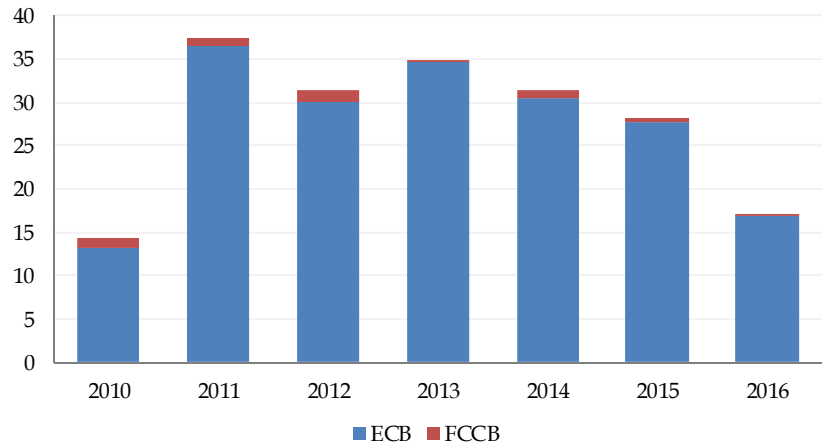


Rupee Forwards



External Commercial Borrowings: Maturities manageable

ECB/FCCB Issuances ($B)



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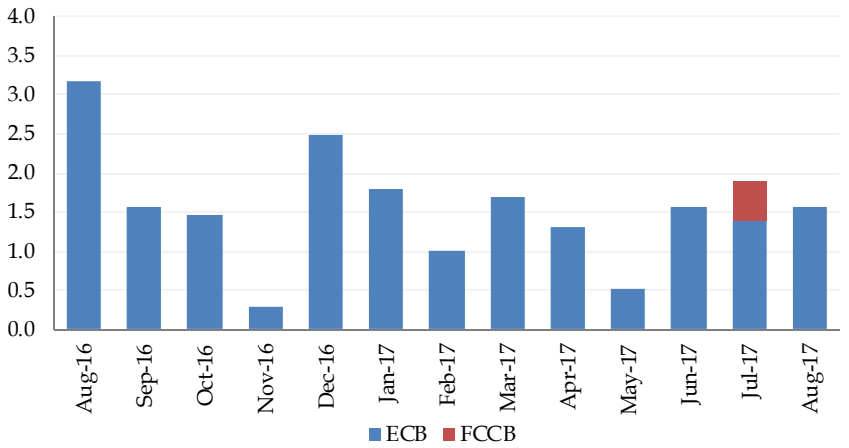
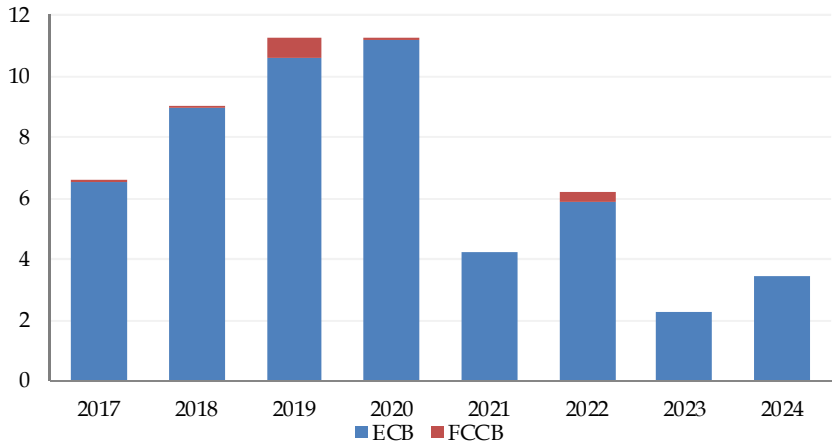
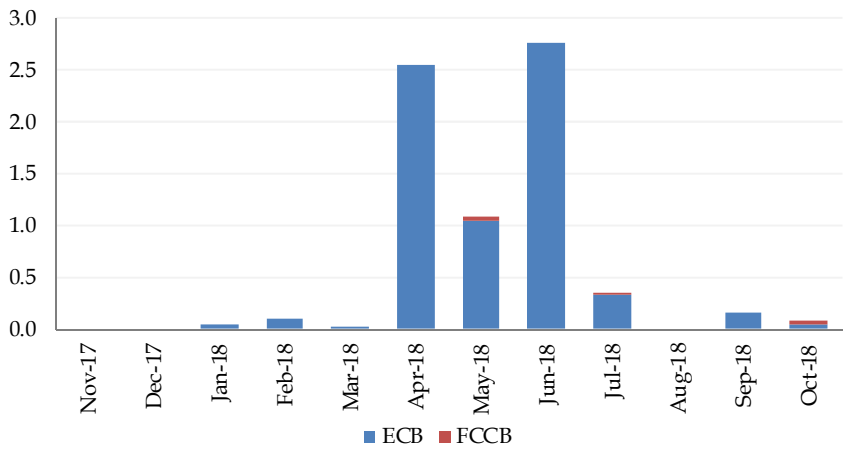


ECB/FCCB Maturity Profile ($B)

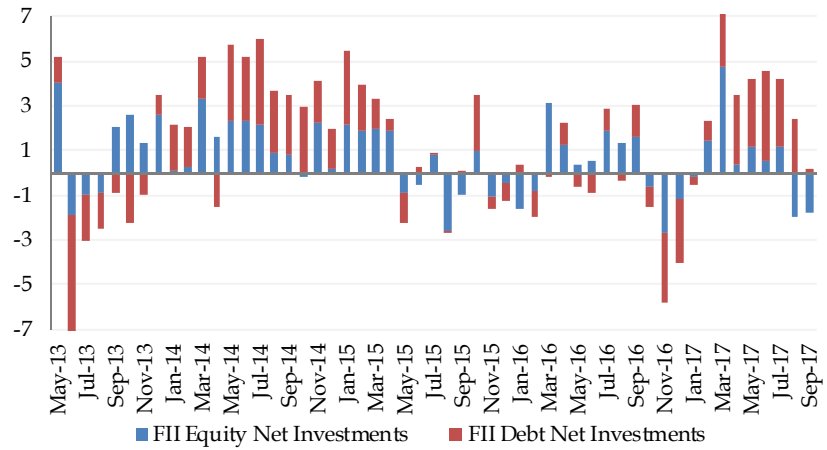


ECB/FCCB Maturity Profile ($B)

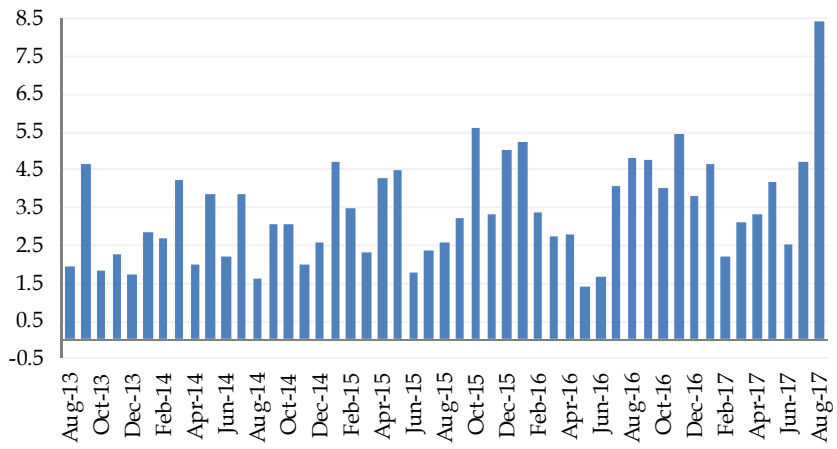


Foreign Investment: FDI inflows remain robust

FII Investments ($B)



Net FDI investments ($B)



Conclusions

- India's trade deficit narrowed in September on the back of continued strong export growth performance . There appears to some slowdown in gold imports related to GST uncertainty but that should normalize the in next few months. 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 Q4FY17 came in at 0.6% of GDP and for FY17 as a whole at 0.7% of GDP.
- 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 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. India has shown ten consecutive months of positive export growth after a prolonged period of declines.
- 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. While the RBI may not desire 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. 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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