

SLOW, NOT SLUGGISH: 'TRADE IS LIKE WATER' TRADE MOMENTUM REMAINS FIRM DESPITE HICCUPS, RUPEE VOLATILITY MORE A FALLOUT OF GLOBAL MAYHEM

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The idea, Trade is like Water, propagated by ex-MAS chief Ravi Menon, as also Singapore's Prime Minister, Lawrence Wong, interweaving the power of export diversification and thus finding alternatives to imports seems to be playing out as Indian exports are concerned.

India's total merchandise exports during FY26, Apr-Sep'25 inched up by 2.9% to \$220 bn (\$214 bn in H1 FY25). Cumulative exports to the USA also registered growth of 13% to \$45 bn in FY26 Apr-Sep from \$40bn in FY25 Apr-Sep though there could be some front loading effects to the aftermaths with September figures registering negative yoy growth of ~12%. Furthermore, if we look at the share of USA in our exports, it has been declining since July 2025, moving down to 15% in Sep'25, with marine products (15% in Sep'25 from 20% in FY25), precious, semi-precious stones (6% in Sep from 37% in FY25), RMG cotton (29% in Sep from 34% in FY25) and cotton fabrics, made up articles exports (31% in Sep'25 from 39% in FY25) leading the pack even though Marine products and RMG cotton witnessed positive growth during Apr-Sep'25.

Interestingly, share of India's merchandise exports to other countries during this period has increased significantly indicating the diversification of our exports basket with UAE, China, Vietnam, Japan and Hong Kong, as also Bangladesh, Sri Lanka and Nigeria being among the top destinations (over FY25) across different product categories. So, could it be that some destinations are now exporting more to the USA after procuring from India? Australia's share in USA imports of pearls, precious, semi-precious stones has increased to 9% YTD in Jan-Aug 2025 from 2% during the same period in the previous year. Like that Hong Kong too registered increase in share from 1% to 2% to USA during the same period. Meanwhile, when we look at the imports of these commodities by the USA, August shows declining growth.

The buoyancy in trade talks reaffirms India's desire to come out of the highest (among Asian peers) tariff structure while enhancing capability building across several loops with recently concluded LPG deals and strategic defence deals last month bolstering the fair probability of a mutually amicable, fruitful negotiation. Tariff has impacted India's labour-intensive sectors such as textiles, jewellery and seafood, particularly shrimp – which operates with a lower margin. To support the exporters, Government has approved Rs 45,060 crore, including Rs 20,000 crore in credit guarantees on bank loans. This is aimed to enhance the global competitiveness of Indian exporters and support diversification into new and emerging markets. By enabling collateral-free credit access under CGTMSE, it will be strengthening liquidity, as also ensures smooth business operations since the tariffs have led to a steep drop in container volume of shipments to US .

Meanwhile, rupee, valiantly defending its levels for weeks, and having appreciation bias in early hours went for a tailspin towards the fog end on Friday, breaching 89.49. The sudden spike could be a culmination of a mix of factors; the melt down in global markets and Asia as super rich AI valuations concentrated around mag7 are being questioned, digital assets are tumbling and Sell Japan is gaining momentum, with the DXY scaling post 100. **With RBI making its stance clear that it is not there to defend any level for the local currency, and its rich valuations on REER/NEER matrix, the momentum in offshore NDF could have led to the spike that does not have any structural implications for the strength of the currency.**

On a BoP basis, India's current account deficit (CAD) placed at 0.2% of GDP in Q1 FY26, as against 0.9% in Q1 FY25. This improvement in CAD was mainly owing to robust services exports and strong inflow of remittances. Based on the above trends, we expect India's current account will be in deficit mode of ~1.8%/2.8% of GDP in Q2/Q3 FY26 before it will turn into positive side in Q4 FY26. For the complete fiscal (FY26), we expect an overall deficit in the range of ~1.0-1.3% of GDP. Regarding overall BoP, we expect a marginal deficit of upto ~\$10 billion for FY26 as compared to \$5.0 billion in FY25. Thus even though BOP will turn negative in FY26, the alarm bells that are being sounded regarding its impact on rupee movements seems to be a little overblown at this point. In fact at an aggregate basis, India's merchandise trade balance of goods and services has increased very modestly during Apr-Oct , even after the tariff meltdown.

INDIA'S EXPORT DIVERSIFICATION

- India's total exports during FY 26, Apr-Sep'25 have increased by 2.9% to \$220 bn, compared to \$214 bn during the same period in the previous fiscal. Cumulative exports to the USA also registered growth of 13% to \$45 bn in FY26 Apr-Sep from \$40bn in FY25 Apr-Sep. However, when we look at the monthly figures, September exports to the USA have registered negative yoy growth of ~12%. Furthermore, if we look the share of USA in our exports, it has been declining since July 2025. The share has moved down to 15% in Sep'25.
- Coming to the major commodities that India exports to the USA, there is decline in share of the US in India's total exports of marine products (15% in Sep'25 from 20% in FY25), precious, semi-precious stones (6% in Sep from 37% in FY25), RMG cotton (29% in Sep from 34% in FY25) and cotton fabrics, made up articles exports (31% in Sep'25 from 39% in FY25). Marine products and RMG cotton witnessed positive growth during Apr-Sep'25. Interestingly, **share of India's exports to other countries during this period increased indicating the diversification of our exports.** Share of UAE, China and Hong Kong among the top 5 export destinations increased while in case of marine products China, Thailand, Vietnam, Japan all increased when compared to FY25. In RMG cotton share of UAE has increased. While Bangladesh, Sri Lanka and Nigeria have now higher share in exports of cotton fabrics and made-ups export. Meanwhile, UAE and Hong-Kong's share have increased in our exports of precious, semi-precious stones.
- Is it that these countries are now exporting more to the USA after procuring from India? Australia's share in USA imports of pearls, precious, semi-precious stones has increased to 9% YTD in Jan-Aug 2025 from 2% during the same period in the previous year. Like that Hong Kong too registered increase in share from 1% to 2%.**
- Meanwhile, when we look at the imports of these commodities by the USA, August shows declining growth.

INDIA-US TRADE DEAL UPDATE

- The US currently levies the highest tariffs on India among Asian nations. Meanwhile, improving US-China trade relations are eroding India's relative advantage. With Russian oil shipments to India have decreased since 21 Oct, it is expected that US to roll back the 25% tariff linked to Russian oil purchases, and eventually move toward a 15% overall rate, with India prepared to cut its own import tariffs on over 80% of goods while protecting sensitive sectors like agriculture.

India's country wise exports				
Country	FY25	April	Aug	Sep
India's overall exports (% share)				
U S A	19.8	21.9	19.7	15.0
U ARAB EMTS	8.4	9.0	9.3	9.8
NETHERLAND	5.2	5.3	5.0	4.4
CHINA P RP	3.3	3.6	3.5	4.0
HONG KONG	1.4	1.2	1.7	3.1
India's Marine exports (% share)				
U S A	36.2	35.1	27.4	21.1
CHINA P RP	16.4	16.2	16.3	20.5
THAILAND	4.2	2.5	4.4	8.4
VIETNAM	5.2	6.7	7.3	7.3
JAPAN	5.5	4.5	6.2	6.4
India's Precious, semi precious stones exports (% share)				
HONG KONG	23.6	24.9	22.7	49.7
U ARAB EMTS	13.3	16.5	18.2	17.7
BELGIUM	9.8	10.0	4.1	7.7
U S A	36.7	34.5	10.1	6.1
THAILAND	3.0	2.2	1.8	5.5
India's RMG Cotton exports (% share)				
U S A	33.9	34.2	35.8	29.0
U ARAB EMTS	6.4	6.0	7.7	10.2
U K	9.6	9.9	8.9	9.2
NETHERLAND	5.5	5.2	5.0	5.1
GERMANY	5.5	5.3	5.1	4.8
India's Cotton Fabrics, Made-ups exports (% share)				
U S A	39.0	37.3	38.8	30.8
BANGLADESH	7.5	8.1	6.8	8.4
SRI LANKA	5.3	4.3	5.3	6.1
NIGERIA	2.1	2.3	2.8	4.1
U K	3.4	3.5	3.2	3.6

Source: Ministry of Commerce & Industry

US Imports (YoY%)					
	Marine products	Gems and Jewelry	Knitted textiles	Non knitted textiles	Made up textiles
Apr-25	18.7	14.1	11.6	8.9	2.2
May-25	4.7	-36.3	10.6	8.1	-1.3
Jun-25	11.3	-28.4	-8.6	-6.9	-16.7
Jul-25	12.5	95.9	4.9	3.9	-19.7
Aug-25	-6.0	-14.1	-1.3	-6.3	-9.2

Source: International Trade administration,CEIC

- ◆ The tariffs have led to a steep drop in container volume of shipments to US. The top 10 countries from where US imports goods, registered a decline of -9.4% in Oct'25, compared to Oct'24. The highest container decline is from India by -18.4%, followed by China -16.3%, while countries like Indonesia, Thailand and Vietnam has registered a positive growth of 10.1%, 3.6% and 3.6% respectively.
- ◆ Tariff has impacted India's labour-intensive sectors such as textiles, jewellery and seafood, particularly shrimp – which operates with a lower margin. To support the exporters, Government has approved Rs 45,060 crore on support for exporters, including Rs 20,000 crore in credit guarantees on bank loans. This is aimed to enhance the global competitiveness of Indian exporters and support diversification into new and emerging markets. By enabling collateral-free credit access under CGSE, it will be strengthening liquidity, ensure smooth business operations.

EXCHANGE RATE DYNAMICS

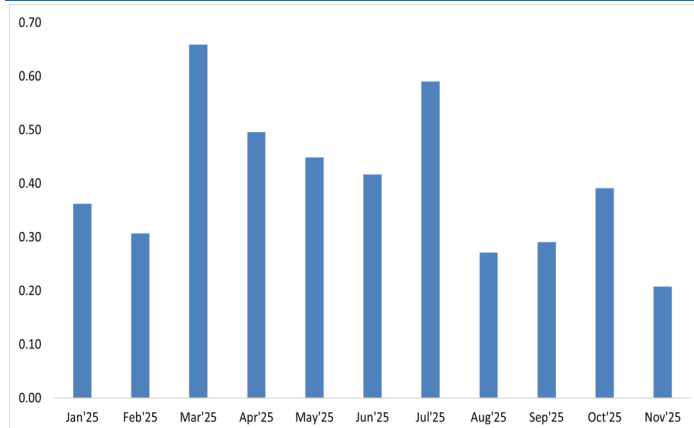
- ◆ On US sanctions on India entities and Individuals, the INR witnessed a sharp depreciation in the latest trading cycle, reaching ₹89.61 per US dollar, which constitutes its weakest level in the current financial year and represents a 1.72% decline when compared with previous day.
- ◆ On m-o-m basis, this decline is translated into 94.3% when compared with Oct'25 indicating sharp adjustment driven by evolving external-sector conditions.
- ◆ Volatility measures indicate a rise in Rupee volatility this year. The sharp depreciation will further elevate volatility for Nov'25 which had been subdued earlier this month even though the Rupee settled at a higher value.
- ◆ This intra-month movement has been accompanied by an observable increase in the standard deviation of daily exchange-rate observations, signifying a rise in short-term volatility and a corresponding elevation in uncertainty regarding the near-term trajectory of the rupee.

Comparison of U.S. Import Volumes from Top 10 Countries of Origin (YoY Change)

Country	TEU Change	% Change
China	-156115	-16.3
Vietnam	9245	3.6
India	-21816	-18.5
Thailand	3547	3.6
South Korea	-2770	-3
Hong Kong	-1304	-1.8
Indonesia	5616	10.1
Germany	-2399	-4.3
Japan	-5110	-8.5
Italy	-244	-0.5
Total of top 10 Origins	-171350	-9.4

Source: <https://www.descartes.com/resources/knowledge-center/global-shipping-report-October-US-imports-flat-over-September>, FT, SBI Research TEU: 20-foot equivalent Unit

Month wise Exchange rate Volatility (S.D)

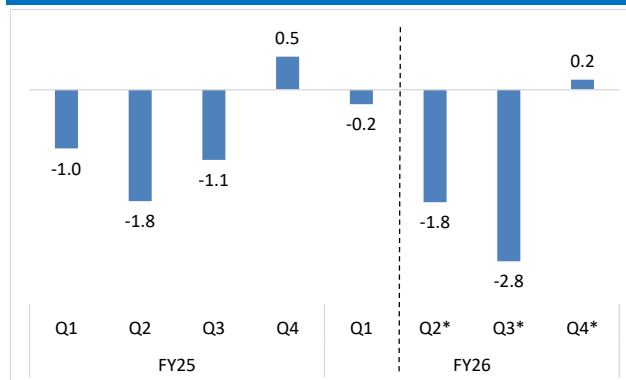


Source: RBI; SBI Research;

BALANCE OF PAYMENTS

- ◆ In the backdrop of enduring trade uncertainty, India's trade performance is mixed. During Apr-Oct 2025, merchandise exports (in USD terms) recorded a growth of 0.6%, while merchandise imports rose by 6.4%. The merchandise trade deficit during Apr-Oct 2025 widened to \$196.8 billion from \$171.4 billion in the corresponding period last year. Compared to flat growth in merchandise exports, the services exports sustained buoyancy with near-to-double digit growth of 9.7% during Apr-Sep 2025. The growth was predominantly steered by strong performance in software and business services. We expect less than 1% merchandise exports growth and ~6% imports growth and subsequently trade deficit of ~\$330 billion during FY26.
- ◆ On a BoP basis, India's current account deficit (CAD) placed at 0.2% of GDP in Q1 FY26, as against 0.9% in Q1 FY25. This improvement in CAD was mainly owing to robust services exports and strong inflow of remittances. Within amplified global uncertainty, India continues to receive strong private remittances (\$35.3 billion in Q1 FY26) and remain the largest recipient of private remittances in the world.
- ◆ Based on the above trends, we expect India's current account will be in deficit mode of ~1.8%/2.8% of GDP in Q2/Q3 FY26 before it will turn into positive side in Q4 FY26. **For the complete fiscal (FY26), we expect an overall deficit in the range of ~1.0-1.3% of GDP. Regarding overall BoP, we expect a marginal deficit of ~\$10 billion for FY26 as compared to \$5.0 billion in FY25.**

India's Current account balance (as % of GDP)



Source: RBI; SBI Research; * SBI Estimates

Trade in USD BN (Apr-Oct)				
		FY26	FY25	YoY%
goods	Exports	254	253	0.6
	Imports	451	424	6.4
	Trade Deficit	-196.8	-171.4	14.8
Services	Exports	238	216	9.7
	Imports	119	115	3.4
	Trade Deficit	118.7	101.5	16.9
Total	Exports	492	469	4.8
	Imports	570	539	5.7
	Trade Deficit	-78.2	-69.9	11.8

Source: Ministry of Commerce & Industry, SBI Research

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Contact Details:

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in,
gcea.erd@sbi.co.in
Phone: 022-22742440
 : [kantisoumya](#)