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panorama

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## US tariffs will hurt global growth, though India appears to be relatively better placed

- The United States runs a current account deficit due to its savings rate being lower than its investment rate
- Import tariffs will most likely reduce the US trade deficit by lowering the investment rate
- Reciprocal tariffs could push the average effective tariff on US imports to its highest level since 1903
- Exports to the US account for only 2% of India's GDP, significantly lower than many other countries
- Electronics, jewellery, textiles, and other exports risk impact from a possible US slowdown
- The US economic slowdown will also have a significant impact on India's software services exports
- If the US and China undergo economic decoupling, India stands to gain from the supply chain diversification
- Central banks are shifting FX reserves away from the dollar due to US policy swings and dollar weaponisation



## New project announcements remain flat in FY25 – holding up well despite the general elections

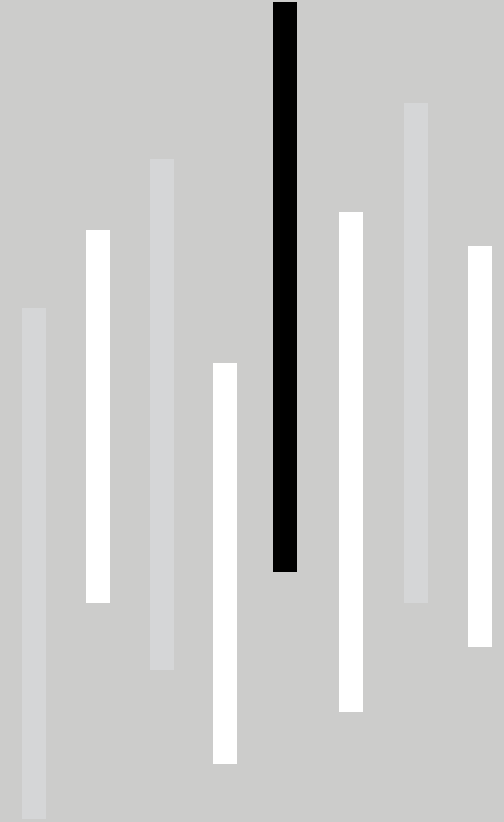
- Announcements witnessed a recovery post the general elections in Q1, with a strong March quarter
- Metals witness a steep rise in project announcements in FY25, followed by the power sector
- Project completions collapsed in FY25 due to a steep decline in government project completions



## IMD forecasts an above-normal monsoon at 105% of the long-period average (LPA)

- IMD assigns only an 11% probability to a below-normal or deficient monsoon
- Skymet forecasts a normal monsoon at 103% of LPA, starting weak but strengthening throughout the season

# Trade & Tariffs



# Savings & investments determine the current account balance

Efforts to reduce the current account deficit by the US would involve adjustments to the saving and/or investment rate

National income identity

$$\begin{array}{ccccccccccc} Y & = & C & + & I & + & G & + & (X & - & M) \\ \text{National} & & & & & & \text{Government} & & & & \\ \text{Income} & & \text{Consumption} & & \text{Investment} & & \text{Spending} & & \text{Exports} & & \text{Imports} \end{array}$$

Rearranging the formula

$$Y - C - G = I + (X - M)$$

Recognising the left-hand side as national savings

$$\begin{array}{ccccccc} S & = & Y & - & C & - & G \\ \text{National} & & & & & & \\ \text{Savings} & & & & & & \end{array}$$

Substitute into the previous equation

$$S = I + (X - M)$$

Rearranging the formula

$$S - I = (X - M)$$

Final Form

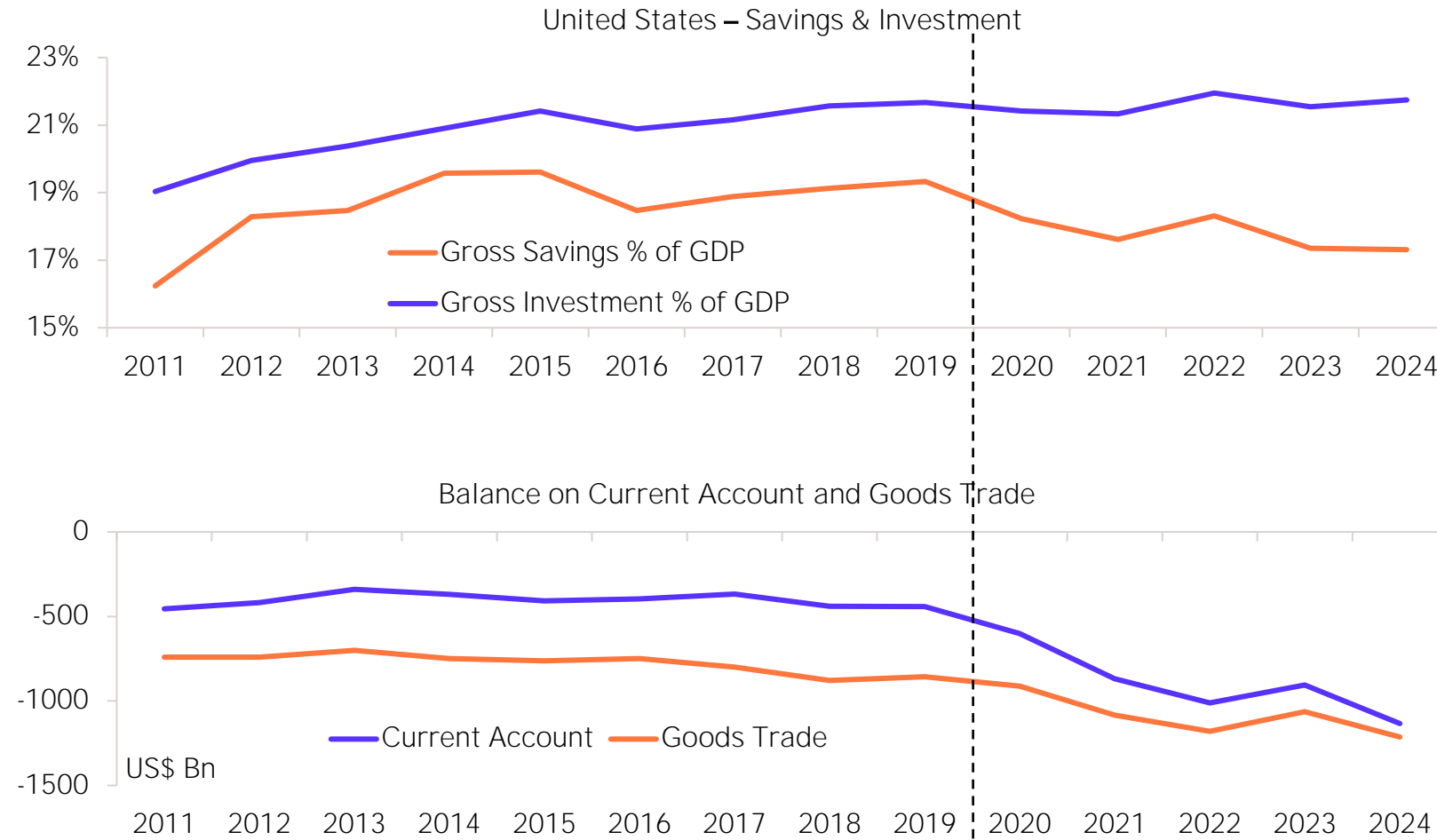
$$\boxed{\text{Savings} - \text{Investment} = \text{Current Account}}$$

If Savings > Investment → Current Account Surplus

If Savings < Investment → Current Account Deficit

# US has witnessed a steep rise in the current account deficit since 2019

The rise in the deficit was driven by a fall in gross savings, while the investment rate remained largely steady



The US gross saving (% of GDP) fell to 17% in 2024 from 19% in 2019, while gross investment (% of GDP) remained steady at 22%

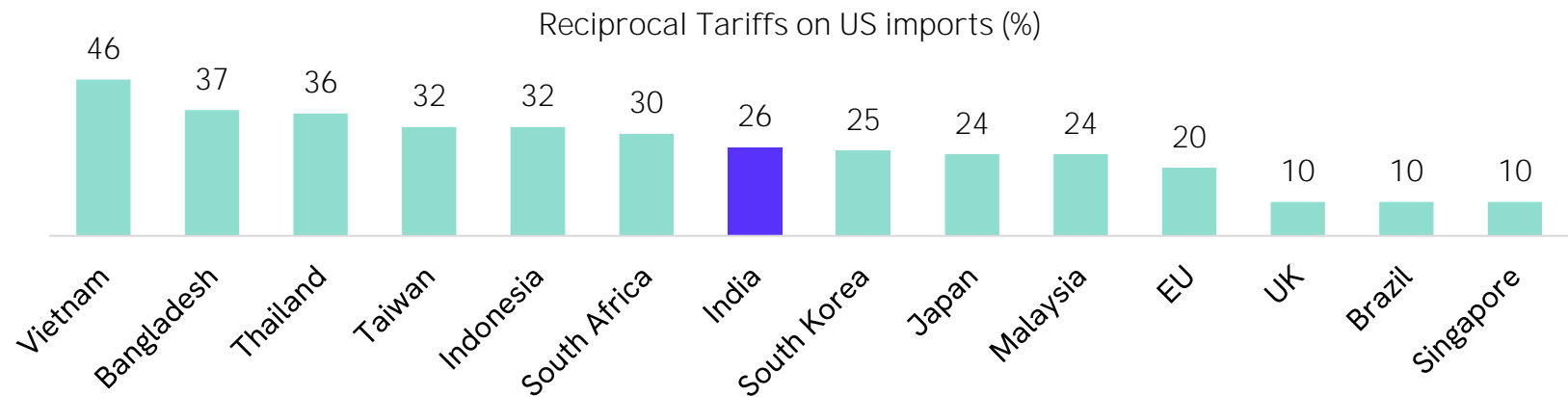
The increased gap between the two led to a higher current account deficit

The rise in the current account deficit post-2019 has primarily been driven by an increase in the goods deficit

The imposition of import tariffs will most likely lead to a lower deficit in the short term by bringing down the investment rate rather than improving the saving rate

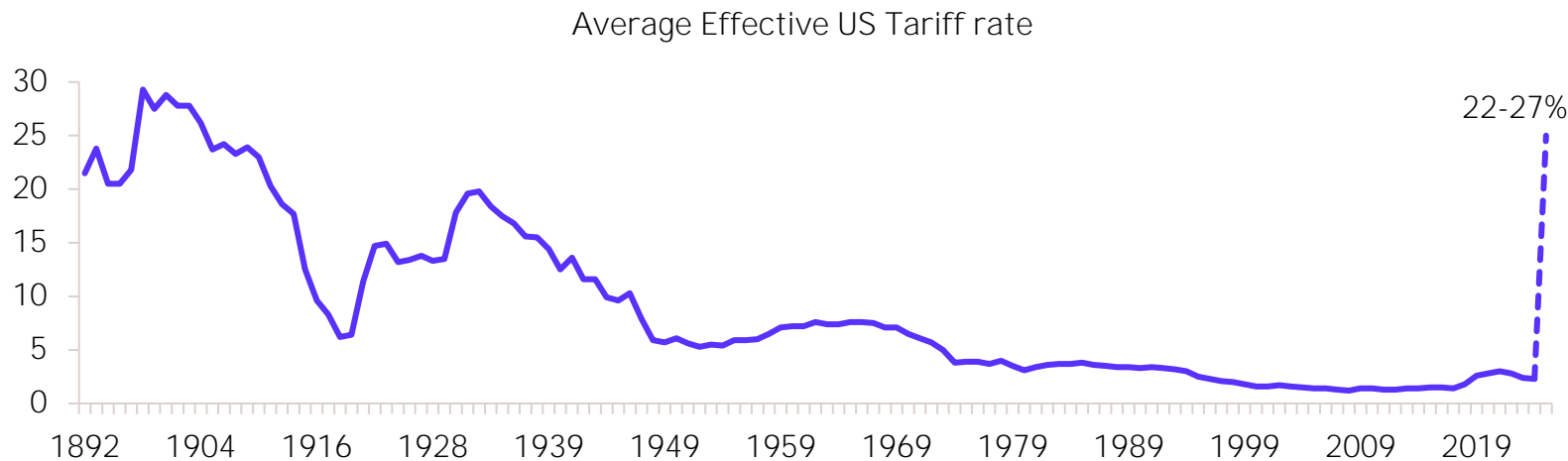
# US to impose reciprocal tariffs, with a 90-day pause for bilateral deals

The average effective tariff on US imports could rise to its highest level since 1903



The US has announced a 90-day pause on reciprocal tariffs to negotiate bilateral agreements, except for China, which will face a 145% tariff

Meanwhile, a base tariff of 10% will apply to most countries during this period



As per market estimates, the average US tariff rate could increase to 22–27%, the highest level since 1903

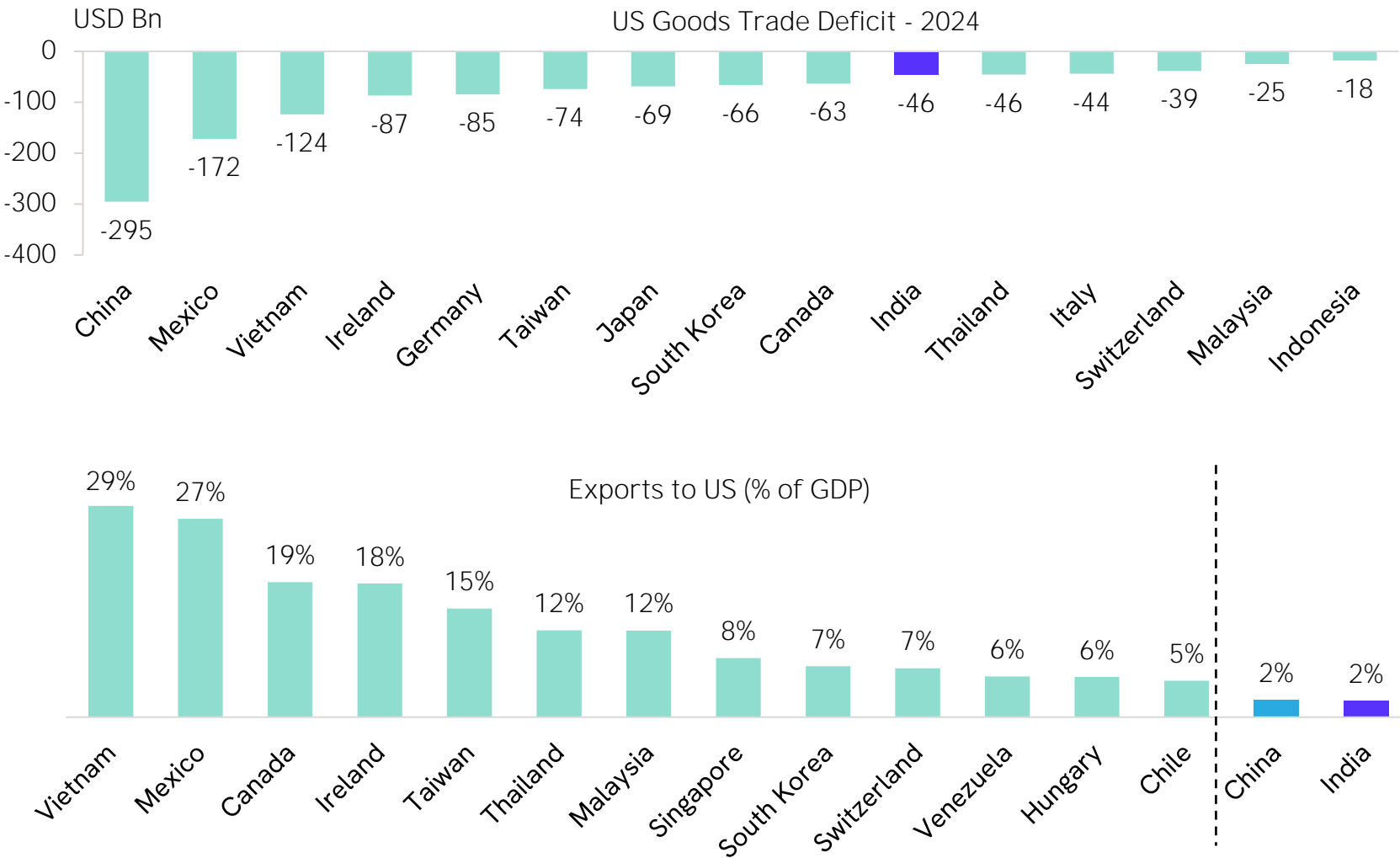
However, the uncertainty around the actual implementation of reciprocal tariffs — and even their magnitude — remains extremely high

Source: Bloomberg, The White House, News Reports, 360 ONE Asset Research



# India does not have a very high goods trade deficit with the US

India is also relatively less exposed, with US exports accounting for 2% of GDP, much lower than many other countries



India is the 10th largest contributor to the United States' goods trade deficit

To help narrow this trade gap, India has the potential to significantly increase its imports of U.S. crude oil, liquefied natural gas (LNG), gold/silver and defence equipment

India's exports to the US account for only 2% of India's GDP, significantly lower than that of many other countries

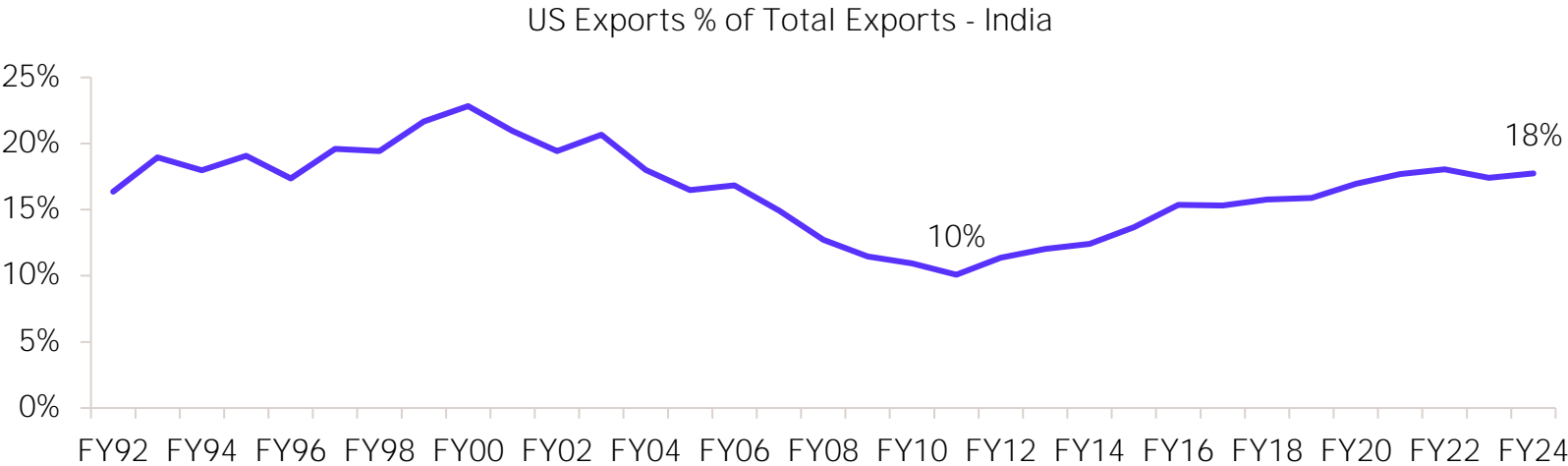
Note that while China's exports to the U.S. also account for 2% of its GDP, China's dependence on the U.S. market is significantly higher

This is because Chinese exports to other countries often end up in the U.S. market after limited value addition in the transit countries

Source: Bloomberg, FRED, US Census, 360 ONE Asset Research

# US share of India's exports has increased over the past decade

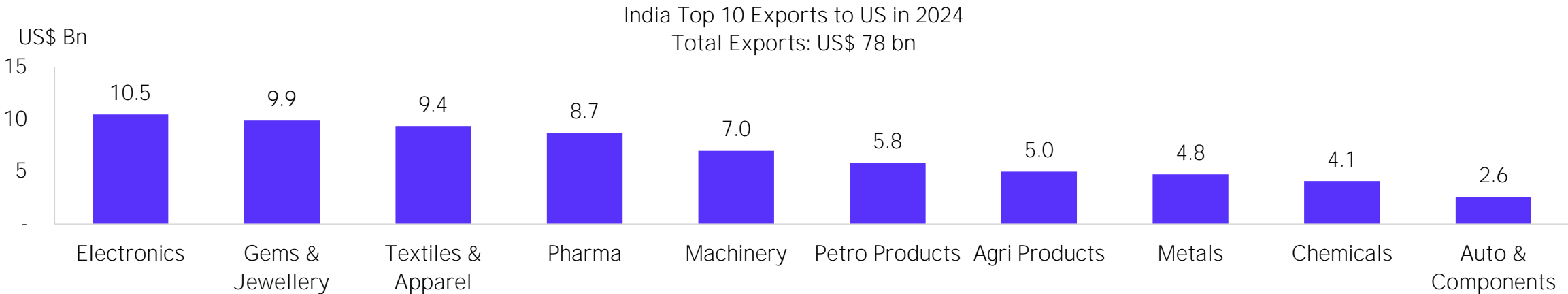
Electronics, gems & jewellery, textiles and other key export sectors face risks from US tariffs and a potential economic slowdown



The share of US exports in India's total exports has increased from 10% in FY11 to 18% in FY24

India's key exports to the US include electronics (especially smartphones), gems and jewellery, textiles and apparel, pharmaceuticals, capital goods, etc.

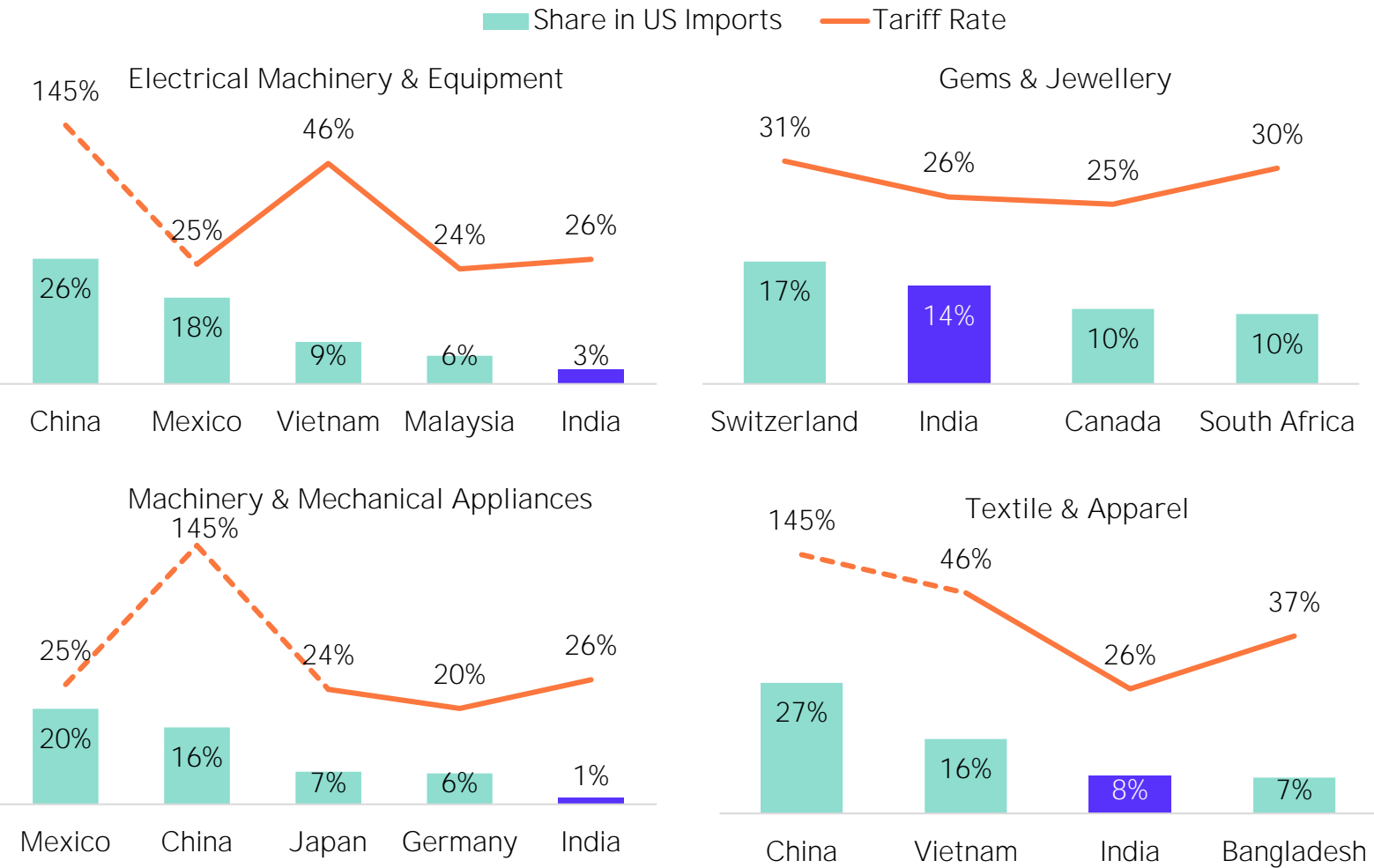
Trade wars/tariff disputes would lead to a slowdown in US economic growth, which would have an impact on export-oriented sectors





# India is relatively better placed than other competing export markets

If the US and China undergo economic decoupling, India stands to gain from the global supply chain diversification



If the proposed reciprocal tariffs are implemented, India will be at an advantage, as other competing export markets to the US will face higher tariffs

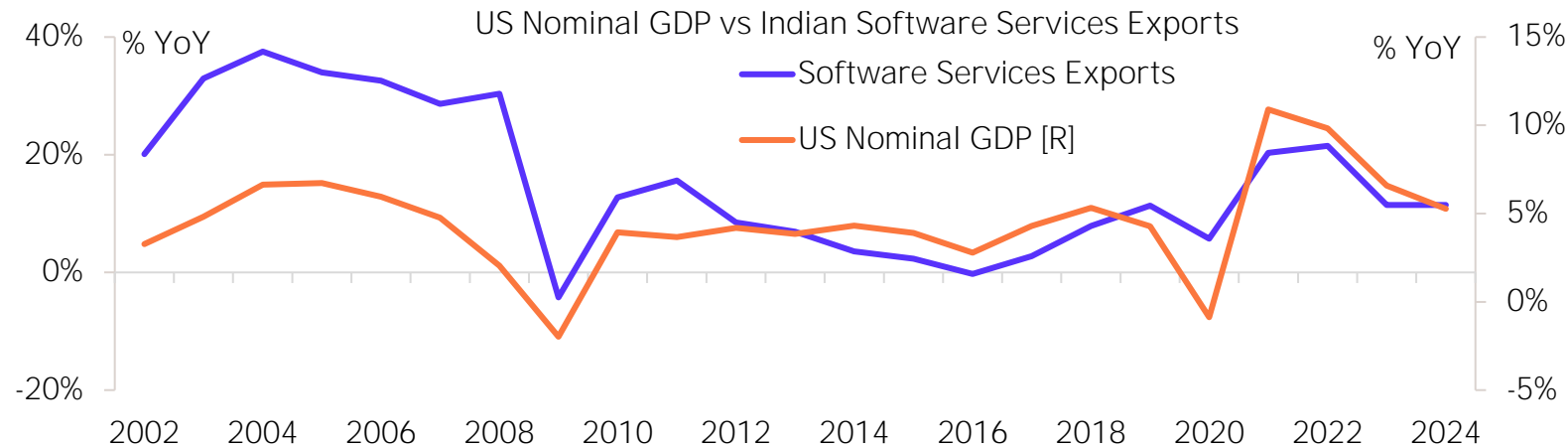
Moreover, companies are likely to continue diversifying their supply chains away from China—a shift that could further benefit India

Vietnam may also face higher tariffs due to its substantial trade deficit with the United States and concerns over rerouting Chinese goods through its territory

Source: UN Comtrade, 360 ONE Asset Research

# US economic slowdown will impact India's software services exports

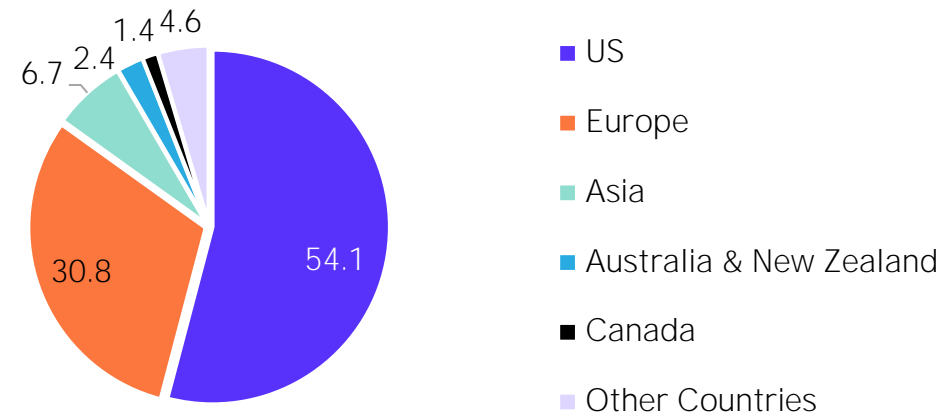
India's software services exports are closely linked to the US economy, as the US accounts for 54% of total exports



India's software services exports are positively correlated with US economic growth

Hence, a slowdown in the US economy, due to heightened economic uncertainty and an increase in tariffs, will impact India's software services industry

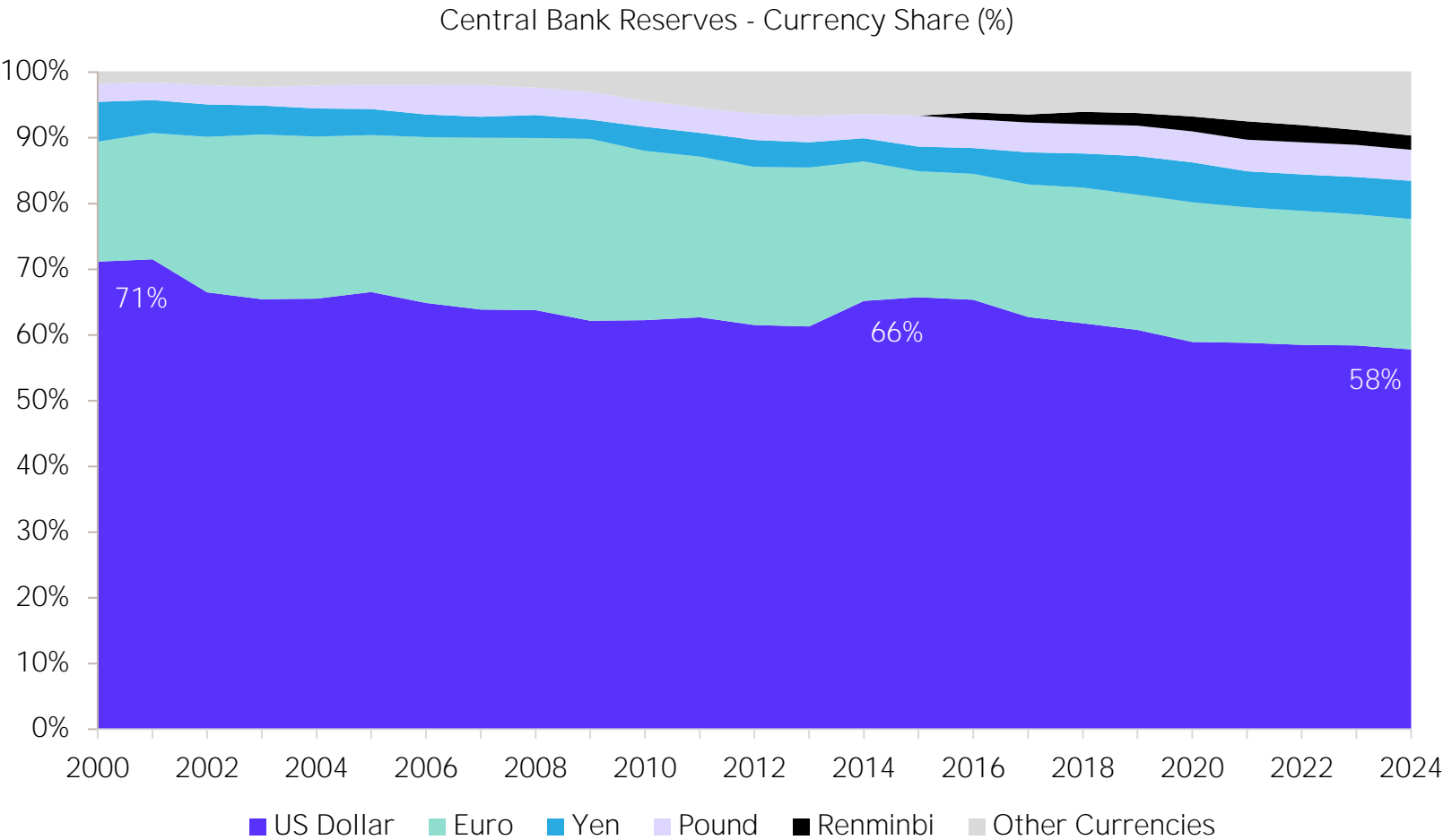
% Share of India Software Services Exports (2023-24)



The US accounts for 54% of India's total software services exports, followed by Europe with a 31% share

# Share of the US\$ in central banks' reserves has been steadily declining

Central banks are shifting FX reserves away from the dollar due to US policy swings and dollar weaponisation



Central banks are diversifying their FX reserves away from the dollar due to volatile US policies and the weaponisation of the US dollar

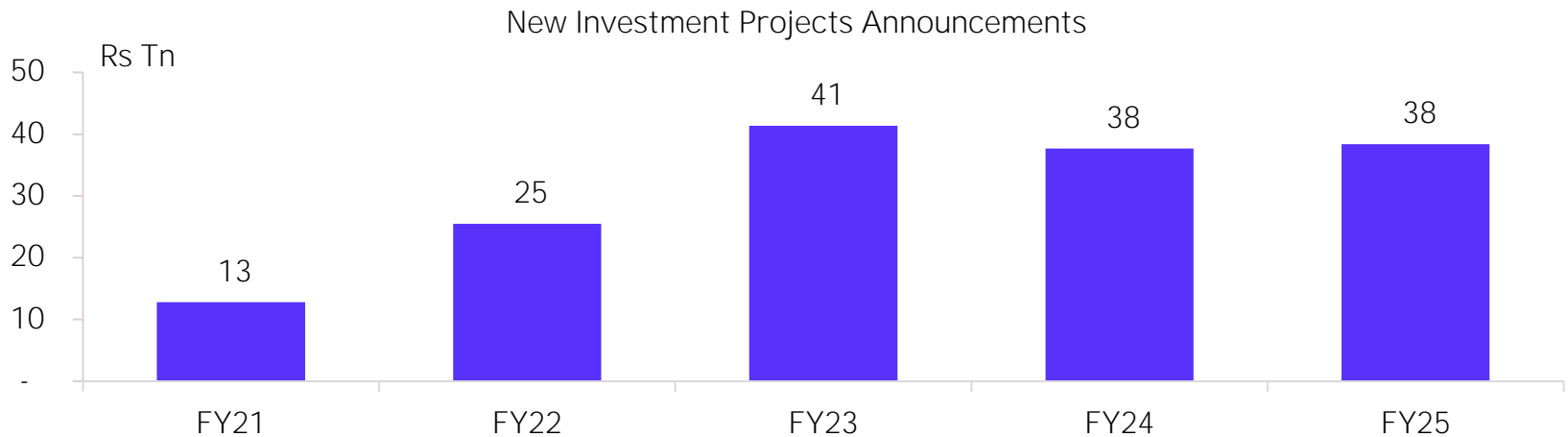
The share of the US dollar in central bank reserves has declined from 66% in 2015 to 58% in 2024

# Capex Announcements



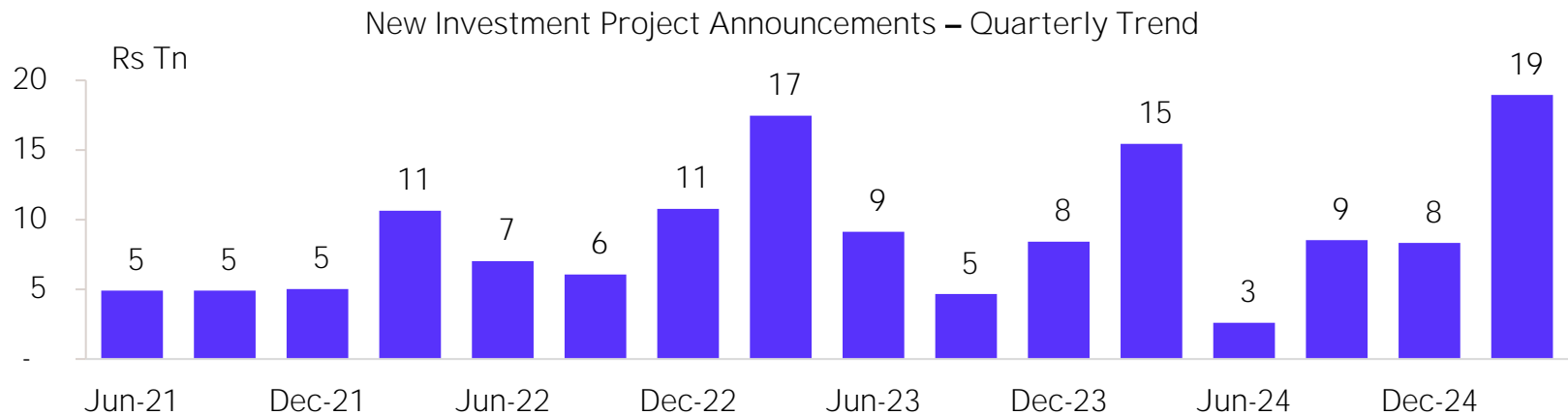
# New project announcement flat in FY25 on account of subdued Q1

However, announcements witnessed a recovery post the general elections, with a strong March quarter



According to CMIE's Capex Database, new project announcements in FY25 stand at Rs 38 tn, unchanged from the previous year

However, considering this was an election year—which may have influenced corporate investment intentions—the overall figures hold up well

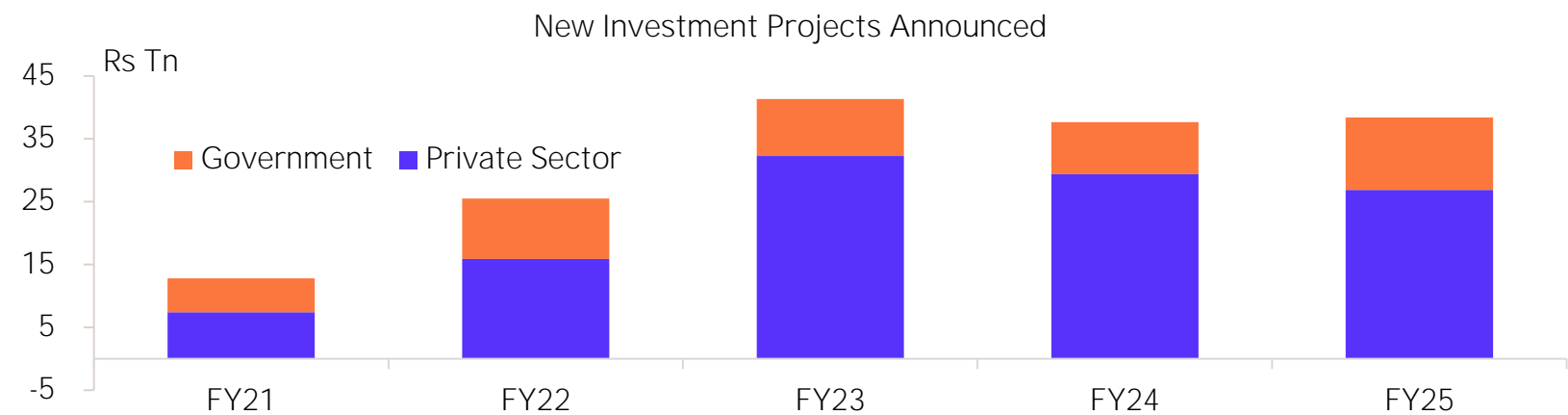


Project announcements in Q1FY25 were subdued due to the general elections

Announcements recovered in the subsequent quarters, with the March quarter reporting strong figures

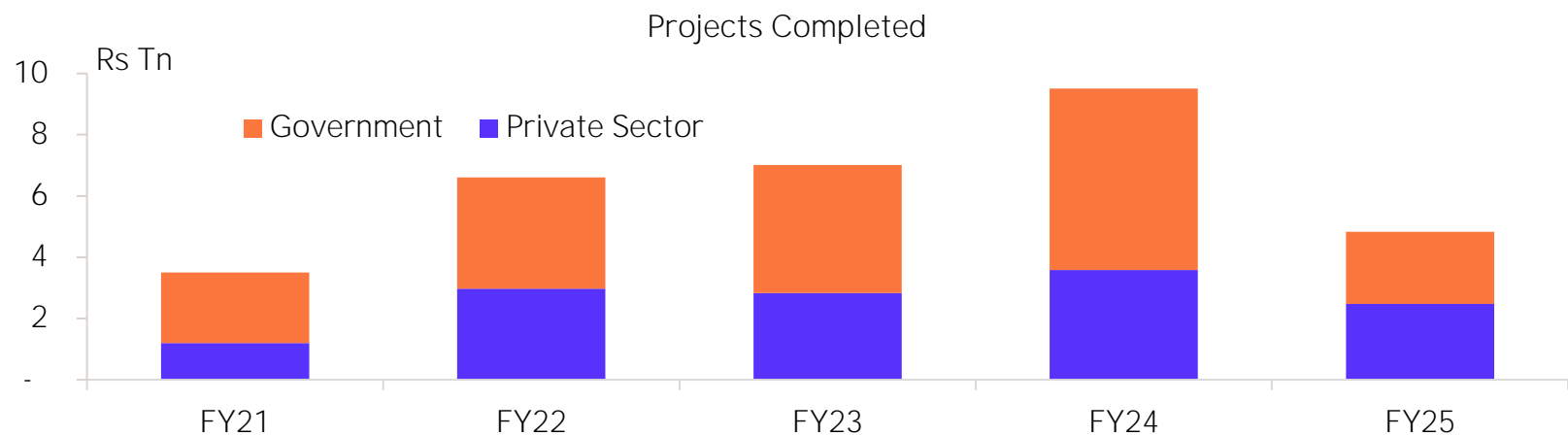
# Private sector announcements were marginally lower in FY25

Project completions collapsed in FY24 due to a steep decline in government project completions



Private sector project announcements fell to Rs 26.8 tn in FY25 from Rs 29.3 tn in FY24

Government project announcements, however, improved to Rs 11.5 trillion from Rs 8.2 trillion during the same period



The completion of government projects fell to Rs 2.3 tn in FY25, down from Rs 5.9 tn in FY24, possibly due to subdued capital expenditure by the central government

Private sector project completions were also lower in FY25

# Metals witness a steep rise in project announcements in FY25

Transport services have witnessed a decline in project announcements due to a lack of aircraft orders

New Investment Announcements (Rs Bn)	FY21	FY22	FY23	FY24	FY25
Manufacturing	4,587	11,298	14,793	14,057	15,566
of which, Chemicals & Chemical Products	1,703	3,224	7,843	5,787	5,152
Metals & Metal Products	1,583	2,821	1,831	2,375	5,282
Machinery	310	3,727	3,037	3,473	2,211
Transport Equipment	549	626	682	1,036	1,515
Power	1,495	5,451	10,181	11,668	13,636
Mining	502	365	192	50	167
Irrigation	228	61	98	103	39
Services	4,794	6,941	14,813	9,080	7,009
of which, Transport services	2,859	5,028	12,657	7,405	5,446
Information technology	500	577	1,161	653	753
Construction & Real Estate	1,182	1,375	1,277	2,706	1,991
All Industries	12,788	25,492	41,354	37,665	38,408

Chemical projects include bio-gas plants, alumina refinery, lithium refinery, and green hydrogen

Metal and metal products mainly include integrated steel plants

Power sector projects primarily driven by renewable energy projects

Transport services in FY23 and FY24 included large aircraft orders, which were absent in FY25



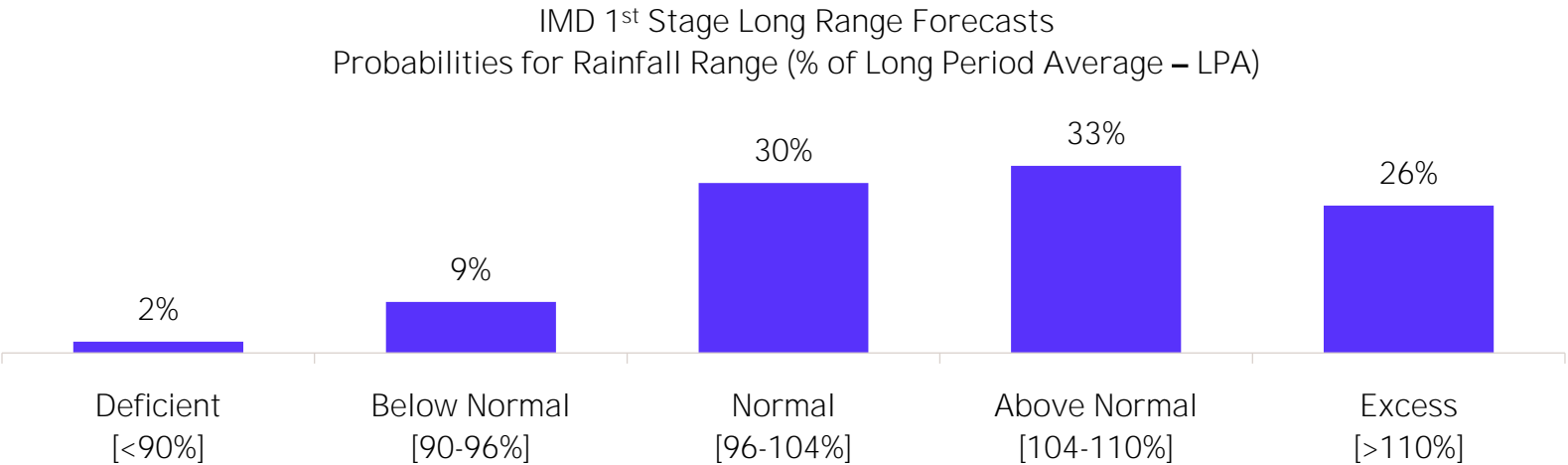
# Monsoon Forecasts



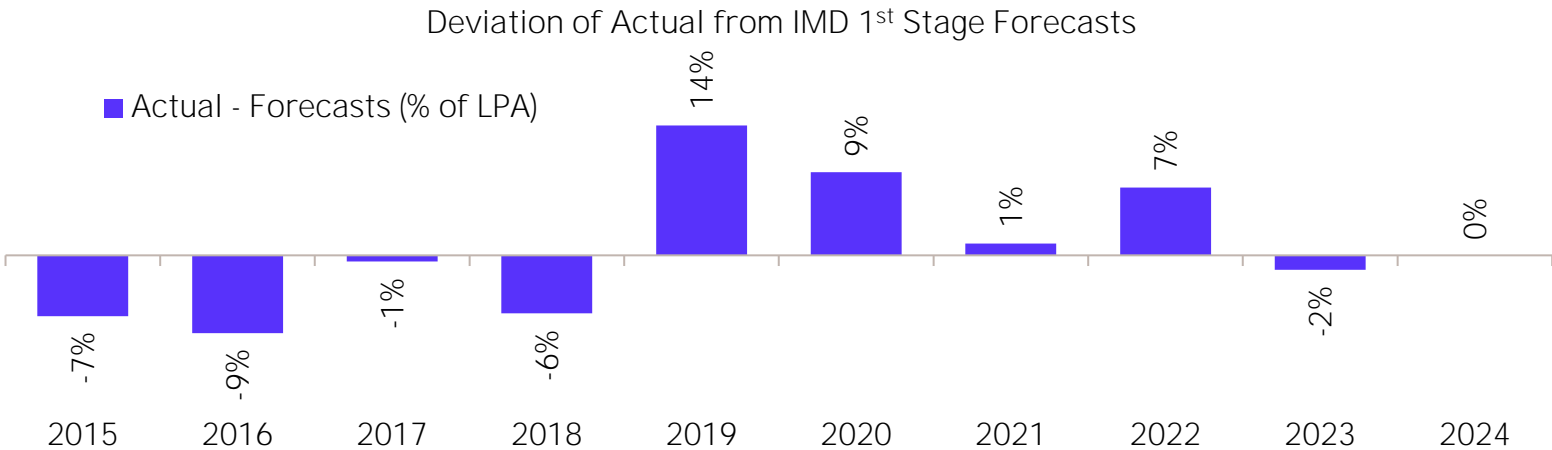
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# IMD forecasts an above-normal monsoon at 105% of the long-period average

IMD assigns only an 11% probability to a below-normal or deficient monsoon



The IMD forecasts a 59% likelihood of an above-normal or excess monsoon, a 30% chance of a normal monsoon, and only an 11% chance of it being below normal or deficient



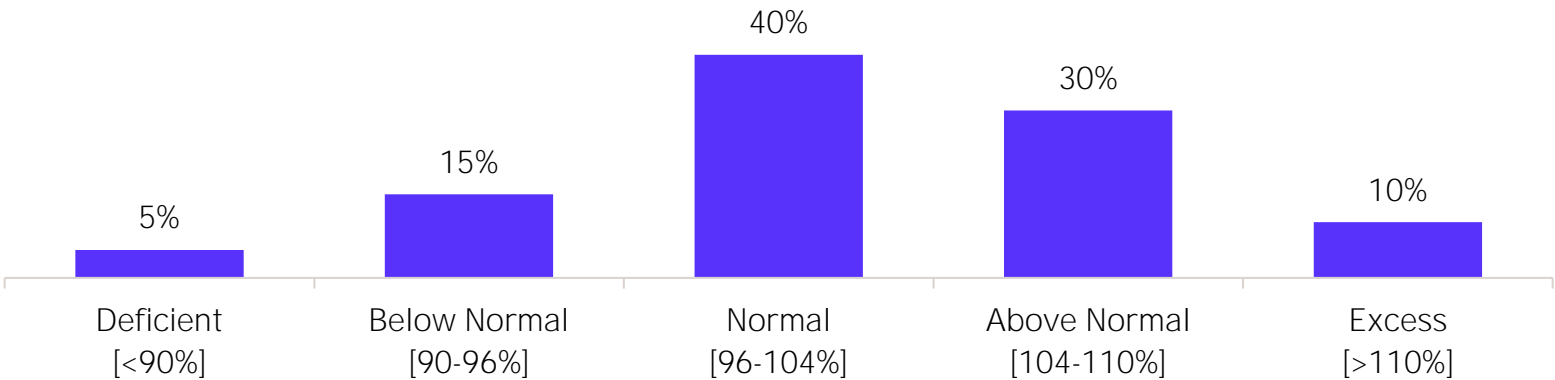
The previous two IMD first-stage forecasts for 2023 and 2024 have been fairly accurate

Source: IMD, CMIE, 360 ONE Asset Research

# Skymet forecasts a normal monsoon at 103% of LPA

The monsoon is expected to begin on a weaker note in June and strengthen gradually over the course of the season

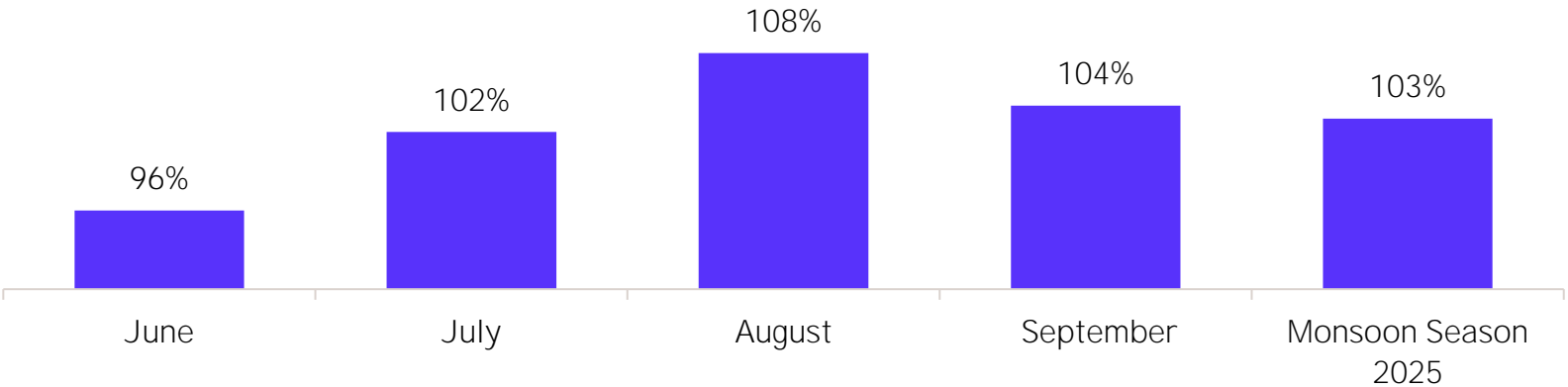
Skymet - Probabilities for Rainfall Range (% of LPA)



Skymet forecasts the 2025 monsoon season to be normal, at 103% of the long-period average

It assigns a 40% probability to a normal monsoon

Month-wise Monsoon Forecast (% of LPA)



The monsoon is projected to begin on a weaker note in June, with rainfall at 96% of the Long Period Average (LPA), and is expected to gain strength as the season progresses

The monsoon forecasts bode well for the food inflation trajectory, allowing the RBI to continue with monetary policy easing

Source: Skymet, 360 ONE Asset Research

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