STATE OF THE REGION: AFRICA & MIDDLE EAST

MAR. 2017

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q2	2016Q3	2016Q4
Saudi Arabia	4.1	1.5	0.9	--
Nigeria	2.7	-2.2	-2.3	-1.2
Egypt	2.5	2.3	1.6	--
South Africa	1.2	1.0	1.0	0.5
UAE	4.0	--	--	--
Kenya	6.3	6.7	5.3	--
Jordan	2.7	2.3	2.2	--
World*	**2.3**	**2.1**	**2.2**	**2.4**

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US$	2016	Dec-16	Jan-17	Feb-17
US$ broad index	127.7	127.7	127.6	125.8
Saudi Arabian riyal (SAR)	3.75	3.75	3.75	3.73
Nigerian naira (NGN)	315.0	315.0	305.5	317.0
Egyptian pound (EGP)	18.1	18.1	18.9	15.8
Sth African rand (ZAR)	13.7	13.7	13.5	13.1
UAE dirham (AED)	3.67	3.67	3.67	3.66
Kenyan shilling (KES)	102.4	102.4	103.8	102.9
Jordanian dinar (JOD)	0.71	0.71	0.71	0.71

Source: Datastream, XE

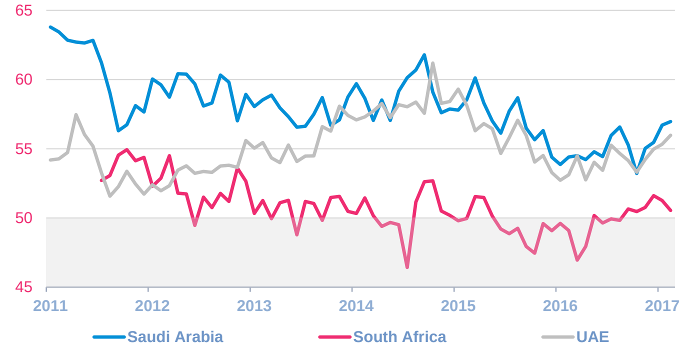
World oil and jet fuel price

US$/barrel	2016	Dec-16	Jan-17	Feb-17
Crude oil (Brent)	52.4	53.3	54.6	54.9
Jet fuel	64.0	62.6	63.6	65.0

Source: Platts, EIA Monthly average data

Business confidence - economy-wide PMIs

50=no change, seasonally adjusted



Source: Markit

- Business confidence in the Middle East continued its trend rise last month, on general stability in oil markets. In Sth Africa, however, recent gains in business sentiment have now been almost entirely eroded.
- The US$ eased a little in Feb, down ~1.5% on a trade-weighted basis. Of the regional currencies, the biggest move was in the EGP which rebounded strongly, up 16% vs the US$ in the month. The ZAR also rose 3% but the NGN unwound last month's gain, falling ~4%.
- Until recently, Brent crude oil prices have been relatively steady in the months following their Dec surge, rising just 0.5% in Feb to US$55/bbl. Jet fuel prices increased by 2.2% in the month, to US$65/bbl.

Market

Revenue passenger kilometers (RPKs)

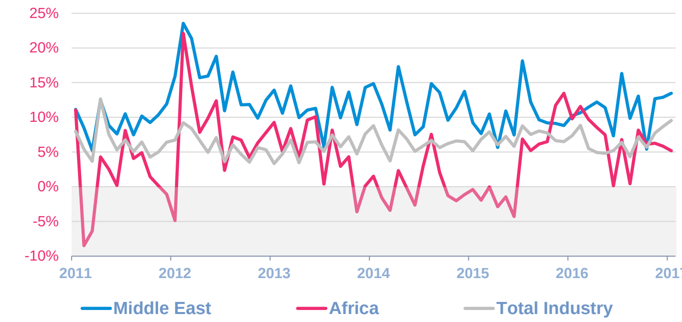
%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Region (registration basis)				
Middle East	11.2	12.7	12.9	13.5
Africa	6.5	6.3	5.8	5.2
World	6.3	7.7	8.7	9.6
Routes (segment basis)				
Middle East - Asia	9.0	12.0	11.9	9.8
Middle East - Europe	9.9	11.9	12.7	10.3
Africa - Europe	1.8	5.0	6.8	3.3
Middle East - Nth America	19.3	21.3	16.6	13.6
Africa - Middle East	18.0	22.2	13.0	10.1
Africa - Asia	6.8	4.0	0.9	2.1

Source: IATA Statistics

- Industry-wide traffic volumes began the year strongly, with RPK growth lifting to 9.6%yoy in Jan, the strongest start to a year since 2005. As usual at this time, we note that Chinese New Year can impact the data; potentially adding ½pp to annual growth on this occasion.
- Growth in traffic volumes for the region's carriers was broadly steady in Jan; ME carrier RPKs ticked up a little (by 0.6pp) to 13.5%yoy, while the African measure eased by a similar magnitude, to 5.2%yoy.
- All of the key routes for Middle East carriers are currently growing at or close to a double-digit pace, with the ME-Nth America market the strongest, at 13.6%yoy & continuing its robust performance from 2016.
- For African airlines, growth is more subdued on the main routes; a modest 3.3% for the sizeable Europe market & 2.1% for Asia. The Africa-ME market is the exception, with RPKs up a brisk 10%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

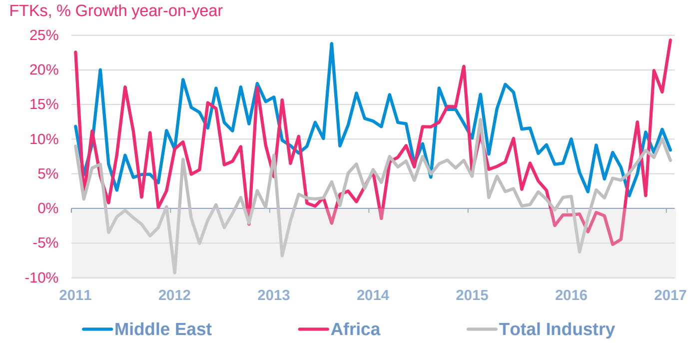
Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Region (registration basis)				
Middle East	6.9	8.1	11.4	8.4
Africa	3.4	19.9	16.8	24.3
World	3.8	7.3	10.0	6.9
Routes (segment basis)				
Middle East - Asia	3.7	4.7	4.1	-0.8
Middle East - Europe	7.1	15.2	19.5	17.9
Africa - Europe	-5.5	-2.5	-1.2	-0.4
Middle East - Nth America	17.0	9.3	20.2	1.9
Africa - Middle East	1.8	0.8	0.5	3.2
Africa - Asia	30.1	57.7	57.2	48.4

Source: IATA Statistics

- The 6.9% annual increase in global FTKs in Jan marked an easing from the double-digit pace of Dec, but was still well ahead of the 5yr average rate (3.0%). The impact of Chinese New Year is again a relevant consideration in Jan & Feb data.
- FTK growth accelerated to 24.3%yoy for the African carriers, but eased a little for ME carriers, to 8.4%yoy.
- ME-Europe is the standout amongst the largest markets, with FTKs up 18%yoy. Freight volumes for the key ME-Asia & Africa-Europe markets are lower than their levels of a year ago, down 0.8% & 0.4%yoy respectively.
- The overall strongest growth currently is on the smaller Africa-Asia market where, despite easing by ~10pp over the Dec outcome, FTKs are still up almost 50%yoy.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Nov-16	Dec-16	Jan-17
Passenger					
Middle East	ASK	13.5	11.0	11.8	11.2
	PLF	*74.7*	*70.0*	*77.3*	*79.4*
Africa	ASK	6.3	4.5	5.3	3.9
	PLF	*68.6*	*67.1*	*71.6*	*70.1*
World	ASK	6.3	6.5	6.7	8.0
	PLF	*80.5*	*79.0*	*80.5*	*80.2*
Freight					
Middle East	AFTK	8.4	5.0	5.6	3.3
	FLF	*42.8*	*47.7*	*45.1*	*42.0*
Africa	AFTK	25.6	27.2	6.7	6.1
	FLF	*22.2*	*27.4*	*30.0*	*23.3*
World	AFTK	5.3	4.8	3.3	3.5
	FLF	*43.0*	*47.3*	*46.2*	*42.1*

Source: IATA Statistics. Note: LF=seasonally adjusted load factor. ASK=available seat kilometers. AFTK=available freight tonne kilometers

- The ME carriers increased ASKs by 11.2%yoy in Jan, 3pp above the industry average pace & around 3x the modest pace of the African carriers. A 3.3%yoy rise in AFTKs by the ME carriers, was consistent with the industry figure (3.5%) but well down on the 6% pace of the African carriers.
- Load factor outcomes were mixed, with the ME carriers performing broadly in line with the industry average for both pax & freight. The PLF &, in particular, the FLF for African airlines lagged the industry performance by a considerable margin again this month.

Airline operating (EBIT) margins*

%revenues	2014	2015	2015Q4	2016Q4
Africa & Middle East	0.5	1.6	10.8	1.0
Industry	4.7	8.3	12.3	10.2

Source: Airline Analyst * constant sample basis, not seasonally adjusted

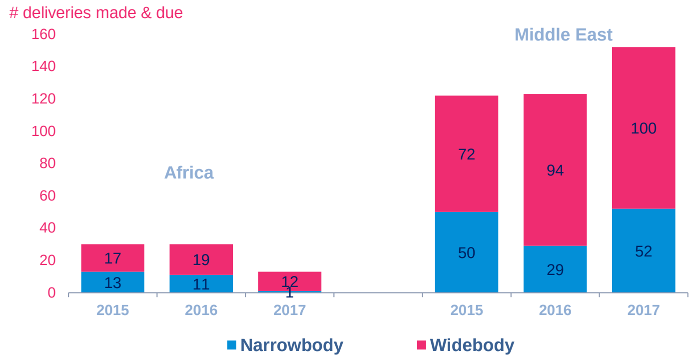
- Financial data for the region's carriers show an EBIT margin of just 1.0% currently, down from the double-digit outcome of a year ago & the current industry figure.
- Passenger yields on key markets for the region are all still lower than their level of a year ago. However, in constant exchange rate terms, there are emerging signs that industry-wide yields may have bottomed.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Middle East - Asia	-10.5	-12.0	-13.9	-15.5
Middle East - Europe	-12.0	-11.5	-13.0	-14.8
Africa - Europe	-8.4	-10.6	-12.1	-12.4
Middle East - Nth America	-7.2	-7.0	-6.1	-10.3
Middle East - Sth America	-13.2	-14.9	-17.5	-6.5
Africa - Middle East	-13.7	-12.1	-15.1	-20.4
Africa - Nth America	-7.1	-4.9	-4.0	-5.5
Within Middle East	-4.8	-3.1	-4.6	-10.2
Within Africa	-12.1	-8.5	-9.3	-8.0

Source: IATA PaxIS

Aircraft deliveries to Africa & the Middle East (latest data)



Source: Ascend

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