STATE OF THE REGION: AFRICA & MIDDLE EAST

SEPT. 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q4	2016Q1	2016Q2
Saudi Arabia	3.5	1.8	1.5	--
Nigeria	2.7	1.8	-0.4	--
South Africa	1.3	0.2	-0.6	--
UAE	3.9†	--	--	--
Kenya	5.6†	7.6	5.5	--
Jordan	2.7	3.1	2.7	--
MENA	2.3	--	--	--
Sub-Saharan Africa	3.4	--	--	--
World*	**2.5**	**2.3**	**2.2**	**2.1**

Source: Datastream   * Market exchange rate basis   † Estimate

Exchange rates

end of period, # per US$	2015	Jun-16	Jul-16	Aug-16
US$ broad index	122.4	121.2	121.9	120.8
Saudi Arabian riyal (SAR)	3.75	3.78	3.75	3.76
Nigerian naira (NGN)	199.0	282.7	318.3	314.8
Sth African rand (ZAR)	15.5	14.8	13.9	14.7
UAE dirham (AED)	3.67	3.70	3.67	3.68
Kenyan shilling (KES)	102.3	101.1	101.4	101.2
Jordanian dinar (JOD)	0.71	0.71	0.71	0.71

Source: Datastream, XE

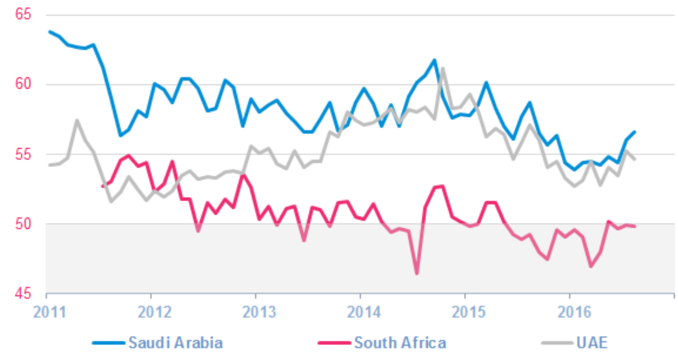
World oil and jet fuel price

US$/barrel	2015	Jun-16	Jul-16	Aug-16
Crude oil (Brent)	52.4	48.3	45.0	45.8
Jet fuel	64.0	58.0	53.4	54.4

Source: Platts, EIA Monthly average data

Business confidence - economy-wide PMIs

50=no change, seasonally adjusted



Source: Markit

- While off its recent lows, the sideways trend in business confidence in Sth Africa points to ongoing concerns; the upward trend in the ME is consistent with a more optimistic view of the near-term outlook.
- The US$ continued its broadly sideways shift of 2016, easing 1% & giving back its July gain. Amongst the main regional currencies, the NGN stabilized after recent falls, rising 1.1% vs the US$. The ZAR was the big mover this month, falling ~6%mom, returning to near its June level.
- The world price of oil & jet fuel ticked higher in Aug, both up ~2% in the month. In terms of key price drivers, the prospect of OPEC nations agreeing to production cuts was broadly offset by lingering concerns of oversupply & few signs of an improved demand outlook.

Market

Revenue passenger kilometers (RPKs)

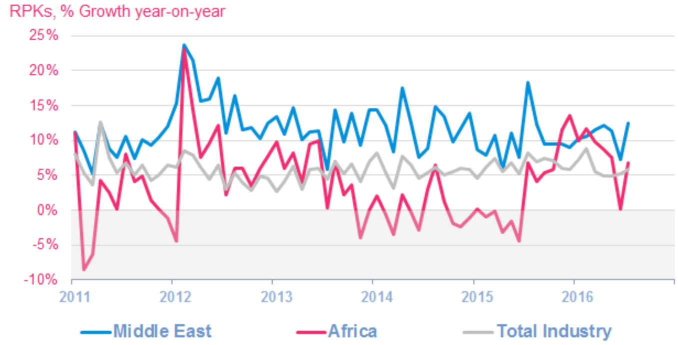
%change on a yr ago	2015	May-16	Jun-16	Jul-16
Region (registration basis)				
Middle East	10.1	11.4	7.3	12.5
Africa	3.1	7.5	0.1	6.8
World	6.5	4.8	5.2	5.9
Routes (segment basis)				
Middle East - Asia	6.9	5.9	0.7	8.9
Middle East - Europe	11.3	7.2	-0.1	10.7
Africa - Europe	-1.2	-0.2	-7.2	2.8
Middle East - Nth America	26.7	16.9	20.3	30.2
Africa - Middle East	6.9	20.4	13.8	27.4
Africa - Asia	-1.2	5.5	5.7	7.6

Source: IATA Statistics

- RPK growth for both the Middle East & African carriers rebounded strongly in July. With 12.5%yoy growth, the ME has returned to the top of the list of fastest growing regions, easily outpacing the strong 6.8% performance of the African carriers & the robust 5.9% for the industry overall. As we noted last month, the impact of Ramadan is partly reflected in these data.
- With the exception of Asia, the key markets for the ME carriers are growing at a double-digit pace; ME-NthAM has returned to a 30%yoy pace & ME-Africa is not far beyond as the two standout performers.
- Although not as positive, the picture is not a bleak one for the African carriers. The largest main route, Af-Europe has returned to positive, albeit modest 2.8% growth, while RPKs on the smaller Af-Asia market have strengthened to a healthy 7.6%yoy rate.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

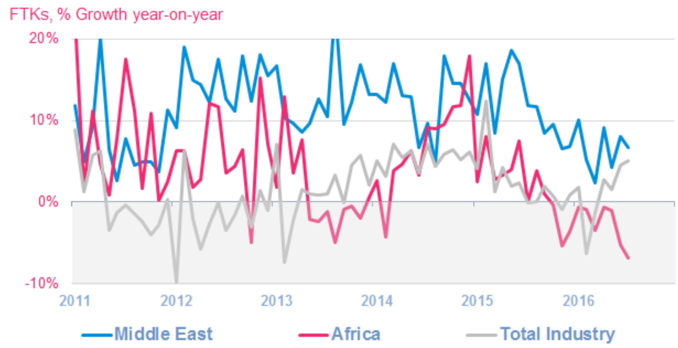
Freight tonne kilometers (FTKs)

%change on a yr ago	2015	May-16	Jun-16	Jul-16
Region (registration basis)				
Middle East	11.6	4.3	8.1	6.7
Africa	1.7	-1.1	-5.2	-6.8
World	2.2	1.5	4.5	5.0
Routes (segment basis)				
Middle East - Asia	9.8	3.3	3.8	0.5
Middle East - Europe	8.2	2.7	0.8	4.7
Africa - Europe	0.4	-11.7	-9.0	-10.7
Middle East - Nth America	29.5	20.1	44.1	24.9
Africa - Middle East	11.3	4.5	3.4	1.8
Africa - Asia	1.3	18.5	21.8	20.7

Source: IATA Statistics

- Industry-wide air freight growth moved higher again in July, with RPKs now up a solid 5%yoy. For the region's carriers, however, performance is widely divergent; ME carriers have increased FTKs by a hefty 6.7%yoy but their African counterparts have seen FTKs *fall* by a similar magnitude.
- A mixed performance is also evident at the segment level. ME-NthAm & Africa-Asia remain the two standout routes, with FTKs currently up 20-25%yoy on both.
- For the two largest ME carrier markets, the slowdown in ME-Asia growth to just 0.5%yoy is partly offset by the improvement in ME-Europe (now up 4.7%yoy).
- For African carriers, performance to/from the primary market of Europe remains very weak & showing little sign of improvement. FTKs are now down by more than 10% on their level of a year ago.

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		2015	May-16	Jun-16	Jul-16
Passenger					
Middle East	ASK	12.6	15.6	14.4	15.1
	PLF	*76.7*	*72.1*	*70.3*	*78.6*
Africa	ASK	1.4	9.3	3.9	5.3
	PLF	*69.3*	*65.0*	*64.4*	*72.7*
World	ASK	5.6	5.6	5.6	6.0
	PLF	*80.2*	*78.8*	*80.7*	*83.7*
Freight					
Middle East	AFTK	15.7	9.5	8.7	11.0
	FLF	*42.9*	*41.3*	*42.7*	*39.2*
Africa	AFTK	5.4	22.6	22.3	31.3
	FLF	*29.9*	*25.1*	*23.7*	*19.4*
World	AFTK	6.3	4.4	5.0	5.2
	FLF	*44.1*	*42.4*	*43.2*	*41.3*

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

- ME carriers have growth both pax & freight capacity at a double-digit rate over the past year: ASKs are up 15% & AFTKs 11%, both more than twice the industry growth rate of 6% & 5.2%, respectively. For the African carriers, ASKs are up 5.3%yoy & AFTKs up a massive 31%yoy.
- The load factor outcomes, both pax & freight, for the region's carriers is below that of the industry. In particular, the FLF for African carriers has slipped below 20% this month, less than half the industry average rate.
- Initial Q2 data show an operating margin of 8.2% for Af/ME carriers in aggregate – double that of the same period last year, but still below the industry figure (9.9%).
- Passenger yields remain under considerable pressure. On all key routes yields are well down on a year ago, with many in, or close to, double-digit decline

Airline EBIT margins*

%revenues	2014	2015	2015Q2	2016Q2
Africa & Middle East	0.5	1.6	4.1	8.2
Industry	4.7	8.3	9.7	9.9

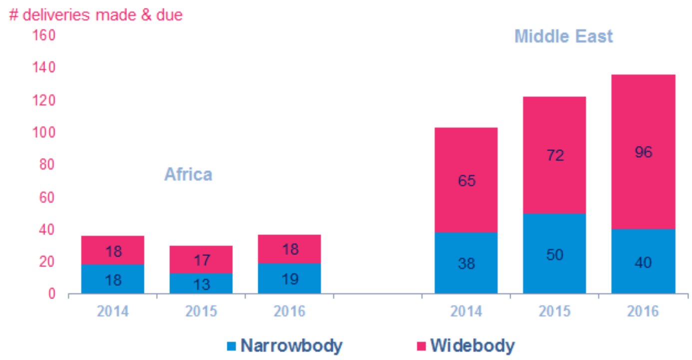
Source: Airline Analyst * constant sample basis, not seasonally adjusted

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	May-16	Jun-16	Jul-16
Middle East - Asia	-7.6	-11.9	-12.4	-8.8
Middle East - Europe	-10.9	-8.1	-13.3	-12.7
Africa - Europe	-17.0	-4.9	-5.6	-6.3
Middle East - Nth America	-10.7	-9.9	-9.8	-12.8
Middle East - Sth America	-17.5	-11.1	-15.3	-13.8
Africa - Middle East	-10.0	-13.6	-13.7	-14.6
Africa - Nth America	-20.6	-7.9	-7.3	-7.3
Within Middle East	-5.6	-4.6	-5.8	-5.9
Within Africa	-15.2	-11.4	-12.4	-11.3

Source: IATA PaxIS

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



Source: Ascend