STATE OF THE REGION: ASIA-PACIFIC

JANUARY 2018

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q1	2017Q2	2017Q3
India	7.9	6.1	5.7	6.3
Japan	0.9	1.3	1.7	2.1
Indonesia	5.0	5.0	5.0	5.1
Korea	2.8	3.0	2.7	3.8
Australia	2.6	1.8	1.9	2.8
Thailand	3.2	3.3	3.8	4.3
Malaysia	4.2	5.6	5.8	6.2
World*	**2.3**	**2.6**	**2.8**	**2.8**

* Market exchange rate basis   † Estimate   Source: Datastream

Exchange rates

end of period, # per US$	2016	Oct-17	Nov-17	Dec-17
US$ broad index	127.7	120.0	120.3	120.0
Japanese yen (JPY)	116.8	113.6	112.4	112.6
Australian dollar (AUD)	1.38	1.31	1.32	1.28
Sth Korean won (KRW)	1209	1117	1087	1068
Indian rupee (INR)	67.9	64.8	64.5	63.9
Indonesian rupiah (IDR)	13427	13572	13566	13636
Thai baht (THB)	35.9	33.2	32.6	32.6
Malaysian ringgit (MYR)	4.49	4.23	4.09	4.05

Source: Datastream, XE

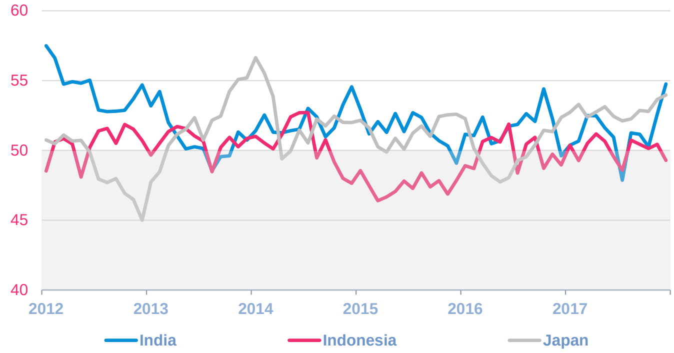
World oil and jet fuel price

US$/barrel	2016	Oct-17	Nov-17	Dec-17
Crude oil (Brent)	52.4	57.5	62.7	64.4
Jet fuel	64.0	69.7	73.9	76.3

Source: Platts, EIA Monthly average data

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Business confidence pushed higher again in India this month, building on last month's performance & joining the Japanese index at an elevated level. In contrast, confidence in Indonesia dropped back into the region typically associated with a decline in activity.
- On a trade-weighted basis, the US$ pared last month's gains, returning to its Oct level. The US$ index is down 6%yoy. In Dec, the AUD rose 3% & the KRW ~2% vs the US$. In yoy terms, the KRW gained almost 12%, with the THB & MYR up 9-10%, & the AUD up 7.5%.
- Oil & jet fuel prices trended higher in Dec, ending 2017 with a 3%mom gain to US$64 & US$76 respectively. Both prices are up more than 20% in yoy terms.

Market

Revenue passenger kilometers (RPKs)

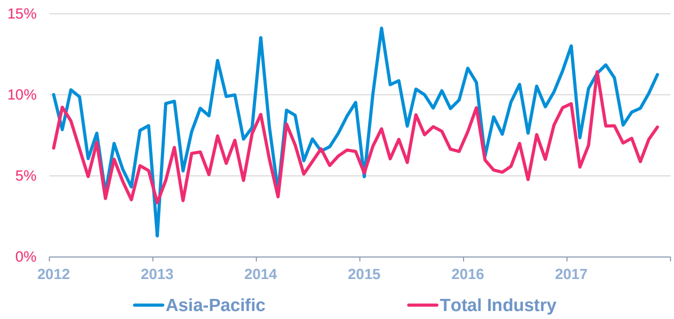
%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
Region (registration basis)				
Asia Pacific	9.5	9.2	10.1	11.3
World	6.7	5.9	7.3	8.0
Routes (segment basis)				
India domestic	23.3	17.3	20.4	16.4
Japan domestic	0.7	3.8	2.3	6.7
Australia domestic	1.6	-0.9	3.1	3.3
Asia - Europe	1.8	7.5	6.3	9.9
Within Asia	9.2	9.2	11.2	12.7
Asia - Nth America	9.6	1.5	4.2	5.4
Asia - Middle East	9.3	4.9	9.2	9.3
S/w Pacific - N/S America	15.5	-0.2	3.4	7.7
Asia - Africa	6.8	3.2	4.7	2.0

Source: IATA Statistics   Note: historical data may be subject to revision

- Industry-wide RPKs grew by 8.0%yoy in Nov – the fastest pace in 5 months & up from 7.3% in Nov. Pax volumes are carrying solid momentum into the year-end & look set to deliver another year of above-trend growth.
- Growth in pax volumes for the AsiaPac carriers also moved a little higher this month, maintaining both its double-digit pace, at 11.3%yoy, & its position as the fastest growing region, by some margin.
- India domestic RPK growth eased to 16.4% this month, but it remains the fastest growing of the domestic markets we monitor regularly. The anticipated rebound in Japan domestic RPKs is evident, following the weather-related disruptions of recent months.
- Of the larger international markets, Within Asia is the standout, followed by Asia-Europe, with growth in pax volumes of 12.7% & 9.9%yoy, respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

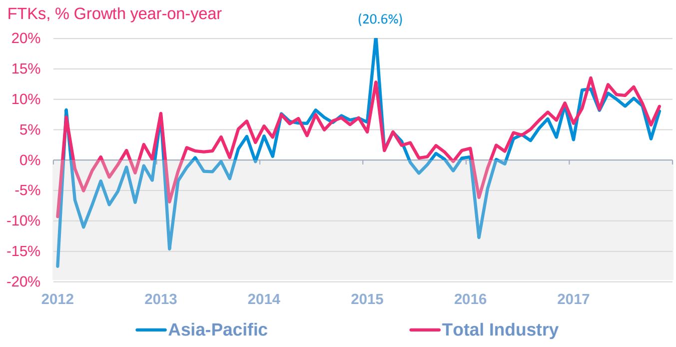
Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
Region (registration basis)				
Asia Pacific	1.7	8.9	3.5	8.1
World	3.7	9.3	5.8	8.8
Routes (segment basis)				
Asia - Europe	3.9	8.7	2.4	8.3
Asia - Nth America	0.2	8.8	4.5	8.3
Within Asia	6.6	14.7	4.8	11.0
Asia - Middle East	3.7	10.7	3.1	6.7
S/w Pacific - N/S America	18.6	17.9	24.8	30.1
Asia - Africa	30.1	63.8	63.3	45.8

Source: IATA Statistics Note: historical data may be subject to revision

- Global FTK growth accelerated to 8.8%yoy in Nov, up from 5.8% in Oct. Freight volumes remain on track to record their strongest year of growth since the post-GFC rebound in 2010.
- For the AsiaPac carriers, the pace of FTK growth recovered sharply, returning to a brisk 8.1%yoy pace, but remaining moderately below the overall industry-wide performance.
- The rebound is clear across all of the key markets, with Europe & Within Asia the most notable, with a ~6pp gain in the growth rate for both, to 8.3% & 11.0%yoy.
- Manufacturers in the major exporting nations of China & Japan, in particular, have continued to report rising demand for their exports, helped in part by a supportive economic backdrop in Europe & the US.

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	Sep-17	Oct-17	Nov-17
Passenger					
Asia Pacific	ASK	8.4	8.3	8.8	9.0
	PLF	*79.7*	*80.3*	*80.4*	*80.6*
World	ASK	6.7	5.4	6.1	6.3
	PLF	*80.5*	*81.6*	*80.9*	*80.2*
Freight					
Asia/Pacific	AFTK	3.2	3.4	1.2	1.2
	FLF	*52.8*	*57.1*	*57.0*	*60.1*
World	AFTK	5.4	3.4	2.8	4.0
	FLF	*42.9*	*45.8*	*47.2*	*49.1*

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

- The Nov load factors for the AsiaPac carriers exceed the industry average for both pax (80.6% vs 80.2%) & freight (60.1% vs 49.1%). This comes alongside strong growth in ASKs (up 9.0%yoy) but a much more subdued performance for AFTKs (up just 1.2%yoy). The FLF result remains easily the highest amongst all regions.
- The final Q3 data show a modest improvement in the region's financial performance compared with the same period last year. The EBIT margin for the AsiaPac carriers is up 0.6pp to 11.3% currently. Even so, it remains below the industry-wide outcome of 14.7% (which is down from an even 15% in Q3 2016).

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q3	2017Q3
Asia Pacific	8.0	10.0	10.7	11.3
Industry	8.5	8.8	15.0	14.7

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

- The pax yield performance remains mixed compared with a year-ago. Yields on routes between Asia & Europe, along with Australia domestic are currently up 6.5-7%yoy while Asia-Sth America yields are still 4% lower than their year-ago levels.

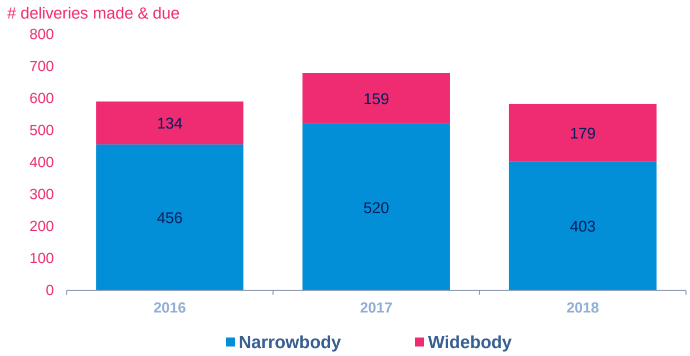
Passenger yields (US$, excl. surcharges & ancillaries)

%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
India domestic	-15.3	3.9	1.8	5.1
Australia domestic	-9.2	4.5	5.0	7.0
Asia - Europe	-10.3	5.7	3.2	6.6
Within Asia	-10.0	-5.1	-5.2	-2.3
Asia - Nth America	-7.2	-5.7	-3.4	-2.9
Asia - Middle East	-10.5	-2.3	-2.1	-1.8
Asia - Sth America	-9.1	-2.0	-0.3	-4.0
Asia - Africa	-8.8	0.6	3.7	2.3

Source: IATA PaxIS Note: historical data may be subject to revision

- The latest data suggest a modest reduction in the number of jet aircraft expected to be delivered to AsiaPac airlines in 2018 vs 2017. Additional widebody deliveries are more than offset by fewer narrowbodies.

Aircraft deliveries to the Asia Pacific (1Q18 data)



Source: Ascend