STATE OF THE REGION: ASIA-PACIFIC

MAY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q2	2015Q3	2015Q4
India	7.3	7.6	7.7	7.3
Japan	0.5	0.7	1.7	0.8
Indonesia	4.8	4.7	4.7	5.0
Korea	2.6	2.2	2.8	3.1
Australia	2.5	2.0	2.7	3.0
Thailand	2.8	2.7	2.8	2.7
Malaysia	5.0	4.9	4.7	4.5
World*	**2.4**	**2.5**	**2.5**	**2.3**

* Market exchange rate basis   † Estimate   Source: Datastream

Exchange rates

end of period, # per US$	2015	Feb-16	Mar-16	Apr-16
US$ broad index	122.4	124.0	121.5	119.5
Japanese yen (JPY)	120.2	112.9	112.4	106.9
Australian dollar (AUD)	1.37	1.40	1.30	1.31
Sth Korean won (KRW)	1176	1240	1140	1145
Indian rupee (INR)	66.2	68.2	66.2	66.4
Indonesian rupiah (IDR)	13840	13389	13236	13209
Thai baht (THB)	36.0	35.6	35.1	34.9
Malaysian ringgit (MYR)	4.29	4.20	3.90	3.91

Source: Datastream, XE

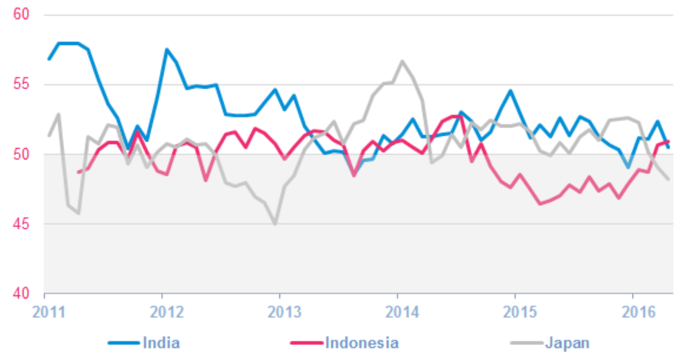
World oil and jet fuel price

US$/barrel	2015	Feb-16	Mar-16	Apr-16
Crude oil (Brent)	52.4	32.2	38.2	41.6
Jet fuel	64.0	40.9	44.9	48.2

Source: Platts, EIA Monthly average data

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Business confidence continued to trend higher in Indonesia supported by a generally favorable economic backdrop. In Japan, confidence fell further this month, impacted by the rise of the yen & slowdown in China.
- The US$ eased further in April, down another 1½% on a trade-weighted basis. Amongst the key regional bilateral rates, the JPY rose almost 5% vs the US$ while the KRW & AUD both eased, by 0.5-1.0% in the month.
- World oil & jet fuel prices continued their upwards movement in April, with the monthly average price of both rising by a little over US$3/bbl. Analysts pointed to the decline in the US$ & speculation that the glut of oil supply will ease as contributing factors.

Market

Revenue passenger kilometers (RPKs)

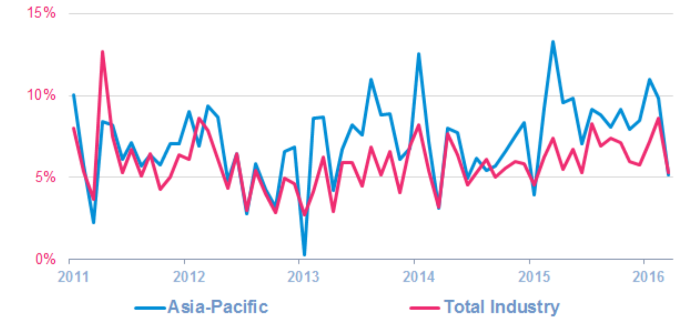
%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
Region (registration basis)				
Asia Pacific	8.7	11.0	9.8	5.1
World	6.5	7.2	8.6	5.3
Routes (segment basis)				
India domestic	19.8	22.9	25.0	27.4
Japan domestic	1.9	1.1	1.4	-1.7
Australia domestic	0.3	3.0	5.5	2.3
Asia - Europe	3.4	2.8	4.0	0.1
Within Asia	8.6	10.4	8.7	4.8
Asia - Nth America	5.8	9.1	9.3	1.5
Asia - Middle East	8.3	8.1	9.8	7.2
S/w Pacific - N/S America	8.1	16.1	13.8	9.7
Asia - Africa	-1.2	11.3	11.5	7.3

Source: IATA Statistics

- RPK growth for the Asia-Pac airlines eased further in March, to 5.1%yoy, broadly in line with the global average growth rate (5.3%).
- Mixed fortunes are evident in the region's key domestic markets. Passenger volumes in the India domestic market accelerated further this month, now more than 27% higher than their level of a year ago, bolstered by broadly favorable economic conditions as well as increased service frequencies.
- RPKs are up a moderate 2.3%yoy in the Australia domestic market while RPKs have fallen by 1.7%yoy in Japan against a fitful economic growth backdrop.
- Despite the disruptions usually observed in the early part of the year, the slowing in RPKs for Asia-Nth America & Asia-Europe bears watching in coming months.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

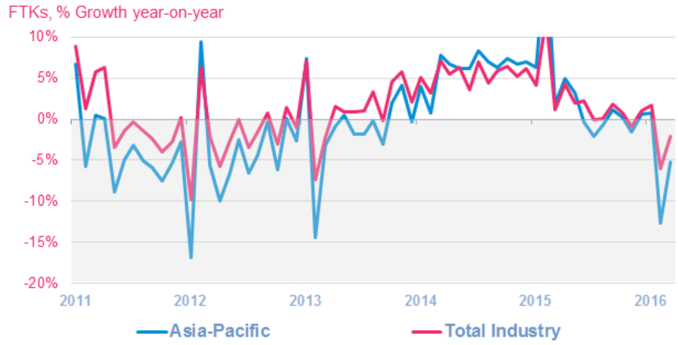
Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
Region (registration basis)				
Asia Pacific	2.4	0.7	-12.7	-5.2
World	2.2	1.7	-6.0	-2.0
Routes (segment basis)				
Asia - Europe	-5.0	2.2	-7.2	-3.5
Asia - Nth America	5.1	-8.5	-20.5	-11.8
Within Asia	-0.3	1.8	-7.1	4.9
Asia - Middle East	7.0	6.5	-2.2	3.1
S/w Pacific - N/S America	12.5	19.0	6.7	-3.9
Asia - Africa	1.3	17.7	5.0	19.8

Source: IATA Statistics

- In yoy terms, industry-wide air freight growth declined for the 2nd consecutive month in March, down 2.0%. FTKs for the region's carriers are also lower than a year ago, down a hefty 5.2%yoy.
- On key inter-regional routes, performance is mixed, with freight volumes on the relatively small Asia-Africa market up almost 20%yoy, but for the (much larger) Asia-Nth America market volumes are down almost 12%.
- Global & Asia-Pac carrier growth should pick up in the coming months as the effect of the US west coast port disruption from early 2015 drops out of the calculations. This should also boost Asia-NthAm growth, in particular.
- Even so, with a soft demand backdrop & global trade volumes remaining subdued, wholesale improvement in the air freight market appears unlikely anytime soon.

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	Jan-16	Feb-16	Mar-16
Passenger					
Asia Pacific	ASK	6.7	8.3	10.0	6.7
	PLF	*78.6*	*78.7*	*78.7*	*78.3*
World	ASK	5.6	5.6	9.8	5.9
	PLF	*80.2*	*78.9*	*77.6*	*79.6*
Freight					
Asia/Pacific	AFTK	5.7	5.0	4.0	3.8
	FLF	*54.0*	*49.9*	*45.9*	*52.5*
World	AFTK	6.2	5.9	7.4	6.9
	FLF	*44.2*	*41.3*	*40.8*	*43.5*

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

- Asia-Pac airlines have grown pax capacity by a solid 6.7% over the past year, ¾pp above the industry rate of 5.9%. The PLF for March dipped slightly, to 78.3% & has fallen below the industry-wide figure of 79.6%.
- Regional carrier AFTKs slowed further this month, now up 3.8%yoy – well below the industry rate of ~7%. The regional freight load factor returned to above 50% in March & is a full 9pp above the global average.
- The initial Q1 financial data show the EBIT margin for Asia-Pac carriers is robust at 9.8%, a percentage point higher than the performance of a year ago, & broadly in-line with the overall industry figure of 9.9%.

Airline EBIT margins*

%revenues	2013	2014	2015Q1	2016Q1
Asia Pacific	2.3	2.8	8.8	9.8
Industry	4.1	5.2	6.8	9.9

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

- Despite some recent reversal in fuel prices & the US$, passenger yields in the main domestic markets & on key regional routes continue to show widespread declines in the order of 10-15%yoy. Japan domestic yields are the exception, showing marginal growth of 0.3%yoy.

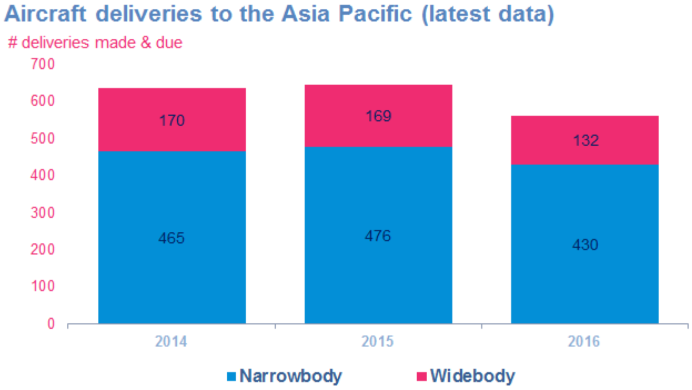
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
India domestic	-14.5	-15.8	-15.5	-15.4
Japan domestic	-11.9	-3.7	-2.7	0.3
Australia domestic	-10.4	-13.7	-15.8	-17.4
Asia - Europe	-19.1	-15.0	-11.7	-15.2
Within Asia	-7.7	-6.8	-7.6	-11.7
Asia - Nth America	-15.1	-11.0	-11.2	-9.8
Asia - Middle East	-7.6	-6.5	-8.7	-9.9
Asia - Sth America	-18.0	-12.4	-10.4	-10.6
Asia - Africa	-17.8	-11.4	-13.7	-10.1

Source: IATA PaxIS

- The latest deliveries data are little changed from last month & point to a slowing in the number of wide & narrowbody aircraft intended for the region this year, compared with both 2014 & 2015.

Aircraft deliveries to the Asia Pacific (latest data)



Source: Ascend