



STATE OF THE REGION: ASIA-PACIFIC

NOVEMBER 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q1	2016Q2	2016Q3
India	7.6	7.9	7.1	--
Japan	0.9	0.2	0.7	0.8
Indonesia	4.8	4.9	5.2	5.0
Korea	2.7	2.8	3.2	2.7
Australia	2.6	3.0	3.3	--
Thailand	2.9	3.3	3.5	--
Malaysia	4.6	4.2	4.0	4.3
World*	2.3	2.2	2.1	2.2

* Market exchange rate basis † Estimate Source: Datastream

Exchange rates

end of period, # per US\$	2015	Aug-16	Sep-16	Oct-16
US\$ broad index	122.4	120.8	121.8	122.9
Japanese yen (JPY)	120.2	103.4	101.2	105.0
Australian dollar (AUD)	1.37	1.33	1.30	1.31
Sth Korean won (KRW)	1176	1117	1099	1147
Indian rupee (INR)	66.2	67.0	66.7	66.7
Indonesian rupiah (IDR)	13840	13257	12987	13013
Thai baht (THB)	36.0	34.6	34.6	35.0
Malaysian ringgit (MYR)	4.29	4.05	4.14	4.20

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Aug-16	Sep-16	Oct-16
Crude oil (Brent)	52.4	45.8	46.6	49.5
Jet fuel	64.0	54.4	55.4	61.2

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
Region (registration basis)				
Asia Pacific	8.7	9.8	7.3	10.2
World	6.5	6.4	4.3	7.0
Routes (segment basis)				
India domestic	19.8	26.2	24.2	23.6
Japan domestic	1.9	1.1	2.2	-0.7
Australia domestic	0.3	0.2	1.8	4.2
Asia - Europe	4.0	1.5	-1.5	3.2
Within Asia	7.5	9.3	2.4	6.4
Asia - Nth America	5.8	7.4	4.3	7.6
Asia - Middle East	6.9	8.9	3.8	5.8
S/w Pacific - N/S America	8.1	17.4	17.3	17.2
Asia - Africa	-1.2	7.6	4.5	6.9

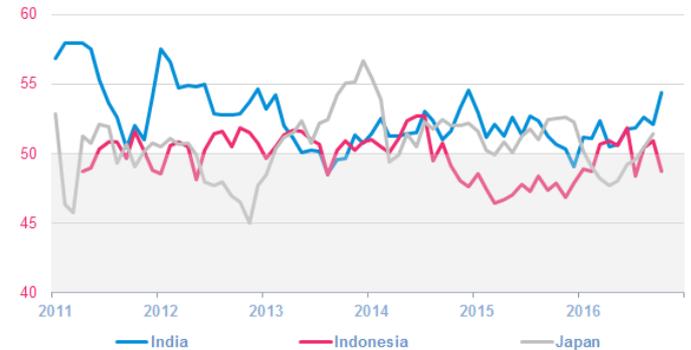
Source: IATA Statistics

→ After a moderation last month, industry-wide RPKs stepped up in Sep, growing by a strong 7.0%yoy – its fastest pace in 7mths. A similar pattern was observed for the Asia Pacific-registered carriers, with the growth rate moving into double-digits, at 10.2%.

→ Of the main domestic markets, India volumes have maintained their 20+%yoy rate, supported by solid

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Latest data reaffirmed a solid growth performance & outlook in the region. GDP growth in Indonesia leads the way at 5.0%yoy, however this was below expectations & contributed to a fall in sentiment. Businesses in India remain particularly upbeat about the outlook.
- The US\$ moved a little higher in Oct, rising 0.9% on a trade-weighted basis. Amongst the main regional currencies, key movers were the JPY & KRW which fell 3.8% & 4.4% respectively vs the US\$ in the month.
- The world price of oil & jet fuel both rose substantially in Oct, up 6% & 10% respectively (or \$3 & \$6/bbl). Prices were lifted by declining US oil inventories & discussions to bring forward market rebalancing.

economic fundamentals, as well as additional airport pairs & flight frequencies.

- RPKs in the Australia domestic market picked up in Sep to a robust 4.2%yoy pace, while in Japan, domestic RPKs have contracted, now 0.7% lower in yoy terms.
- Of the larger markets, Asia-Nth America and Within Asia are the strongest performers, with yoy growth of 7.6% & 6.4%, respectively. Asia-Europe recovered in Sep, with growth returning to a positive, if modest, 3.2% pace.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
Region (registration basis)				
Asia Pacific	2.3	4.3	3.3	5.5
World	2.2	4.1	4.5	6.1
Routes (segment basis)				
Asia - Europe	-4.9	3.0	2.3	7.4
Asia - Nth America	5.1	2.4	4.7	4.8
Within Asia	-0.4	6.5	7.2	8.3
Asia - Middle East	9.8	0.5	-3.6	2.1
S/w Pacific - N/S America	12.5	27.8	25.6	28.4
Asia - Africa	1.3	20.7	34.1	40.9

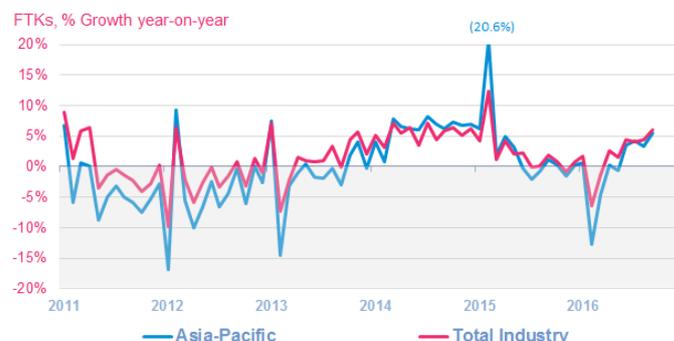
Source: IATA Statistics

- As with its pax counterpart, growth in industry-wide freight volumes moved higher in Sep, up 1½pp to 6.1%yoy. FTK growth for the Asia-Pac carriers also rose, but at 5.5%yoy it remains below the overall industry rate.
- At the segment level, much of the improvement in the region-level aggregate is a result of the 5pp increase (to 7.4%yoy) in the growth rate for Asia-Europe – the largest freight market. A 1pp increase for Within Asia, along

with a turnaround in the growth fortunes for Asia-Middle East (from a yoy contraction to a modest 2.1% rate) also contributed to the region-level gain.

- The yoy FTK growth performance of the two smaller markets of Southwest Pacific-Nth/Sth America & Asia-Africa continued unabated in Sep. FTKs are up ~30% and ~40%, respectively, over the past year.

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	Jul-16	Aug-16	Sep-16
Passenger				
Asia Pacific ASK	6.7	8.1	7.2	8.3
PLF	78.6	81.5	82.1	79.6
World ASK	5.6	6.0	5.6	6.6
PLF	80.2	84.1	83.7	81.1
Freight				
Asia/Pacific AFTK	5.7	2.6	1.6	3.4
FLF	53.9	52.8	51.9	54.7
World AFTK	6.4	5.0	4.9	4.7
FLF	44.1	41.1	40.7	43.7

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

- Mixed outcomes for the Asia-Pac carriers in terms of capacity growth over the past year. ASK growth, at 8.3%, has easily outpaced the industry rate of 6.6%, contributing to the region's pax loads slipping below 80% in Sep & lagging the industry performance of 81%.
- On freight, the converse holds, with modest AFTK growth of 3.4% sitting below the industry rate of 4.7%. In Sep, the FLF for Asia-Pac carriers lifted to 54.7%, a full 11pp above the industry average & easily the strongest performing region.
- The initial Q3 financials show a solid improvement in operating margin for the Asia-Pac carriers, up 3pp on the level of a year ago, to 12.2% currently. The industry-

wide margin has eased a little over the same period, dipping to 15.2%, from 16%, in large part reflecting the still strong but moderating performance from the Nth American carriers.

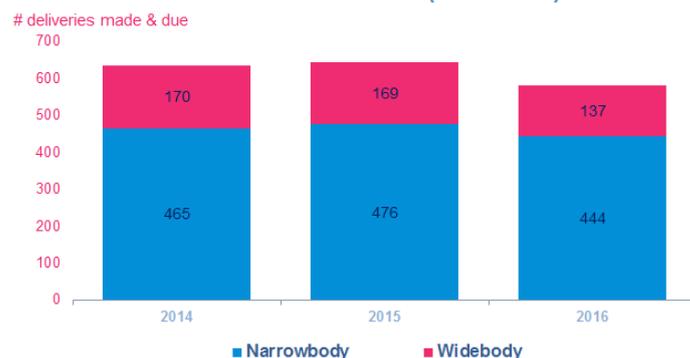
- Pax yields for the Japan domestic market improved again in Sep, to be 6.6% higher than a year ago. However, they remain the exception, with yields on all other key markets lower in yoy terms, despite the trend rise in world oil prices over the course of 2016.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
India domestic	-14.5	-14.5	-13.1	-9.7
Japan domestic	-11.9	2.2	5.4	6.6
Australia domestic	-10.4	-7.5	-5.6	-1.3
Asia - Europe	-19.1	-10.0	-10.2	-8.4
Within Asia	-7.7	-9.6	-9.3	-8.1
Asia - Nth America	-15.1	-7.9	-4.7	-1.8
Asia - Middle East	-7.6	-8.8	-10.5	-8.5
Asia - Sth America	-18.0	-11.2	5.1	-4.9
Asia - Africa	-17.8	-6.0	-5.6	-8.8

Source: IATA PaxIS

Aircraft deliveries to the Asia Pacific (latest data)



Source: Ascend

Airline operating (EBIT) margins*

%revenues	2014	2015	2015Q3	2016Q3
Asia Pacific	2.5	7.7	9.3	12.2
Industry	4.7	8.3	16.0	15.2

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