

State of the region: North Asia

April 2020

Economy

GDP growth, selected economies

% change on a yr ago	2019	Q2 2019	Q3 2019	Q4 2019
People's Republic of China	6.1	6.2	6.0	6.0
Chinese Taipei	2.7	2.4	2.7	3.8
Hong Kong (SAR), China	-1.4	0.1	-3.2	-2.9
Mongolia	4.9	6.3	4.2	1.8
Emerging Asia	5.5	--	--	--
World*	2.6	2.6	2.5	2.5

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2019	Jan-20	Feb-20	Mar-20
US\$ broad index	114.7	115.8	117.8	122.8
Chinese renminbi (CNY)	6.96	6.94	6.99	7.08
Taiwanese dollar (TWD)	30.0	30.2	30.3	30.2
Hong Kong dollar (HKD)	7.79	7.76	7.79	7.75
Mongolian tughrig (MNT)	2740	2748	2755	2775

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2019	Jan-20	Feb-20	Mar-20
Crude oil (Brent)	64.2	63.9	55.7	33.9
Jet fuel	79.6	76.2	65.1	40.1

Source: Platts, Datastream (monthly average data)

- Chinese business sentiment recovered from the trough in February as workers returned to work following the COVID-19 disruptions, and production increased. That

Market

Revenue passenger kilometers (RPKs)

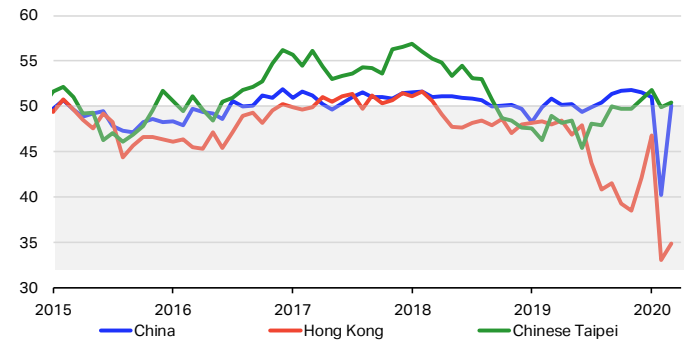
% change on a yr ago	2019	Dec-19	Jan-20	Feb-20
Region (registration basis)				
Asia Pacific	4.8	3.8	0.5	-41.3
World	4.2	4.5	2.5	-14.1
Routes (segment basis)				
China domestic	8.0	4.6	-6.8	-83.6
Asia - Europe	6.6	5.1	4.1	-20.4
Within Asia	6.4	5.2	4.7	-40.7
Asia - Nth America	2.0	6.0	3.0	-30.4
Asia - Middle East	3.5	5.2	5.2	-6.1
Asia - S/w Pacific	6.0	6.0	3.6	-27.3
Asia - Africa	5.0	7.9	4.3	-34.2

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) contracted by 14.1%yoy in February as the COVID-19 outbreak weighed significantly on the China and broader Asia-Pacific markets in particular.
- Asia-Pacific RPKs declined by 41%yoy in February. The region's carriers bore the brunt of the decline as flights to/from China were cancelled and demand for travel to/from and within the region plummeted.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

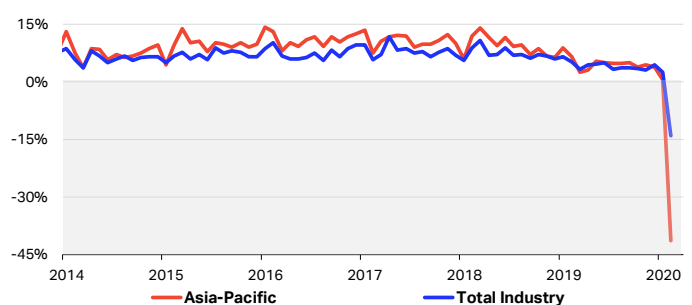
said, the country's supply chains & demand remained disrupted. China's rebound was not mimicked by Hong Kong or Chinese Taipei, which are both suffering from faltering global demand and other adverse effects of the COVID-19 pandemic.

- The virus also impacted March's FX movements. The US\$ strengthened by 4.3%, reflecting high demand for dollar liquidity. Of the key regional currencies, the CNY ended the month down 1.3% vs the US\$ while the HKG gained 0.5%.
- The monthly average jet fuel and crude oil price plunged by ~40% in March amidst the negative impact of COVID-19 on global demand along with the oil price war between Saudi Arabia and Russia.

- China domestic RPKs shrank by 84%yoy – unsurprisingly, the sharpest decline in the history of this time series (since 2000). The fall in pax volumes started in the last week of January and accelerated into February amidst a rising number of cancelled flights and movement restrictions.
- Four of the region's six key remaining markets contracted by more than 20%yoy in February. The key underperformer was the Within Asia market which saw RPKs fall by more than 40%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Cargo tonne kilometers (CTKs)

% change on a yr ago	2019	Dec-19	Jan-20	Feb-20
Region (registration basis)				
Asia Pacific	-5.6	-2.8	-6.4	-2.2
World	-3.2	-1.6	-3.9	-1.4
Routes (segment basis)				
Asia - Europe	-1.6	0.6	-2.7	-6.4
Asia - Nth America	-3.7	-2.3	-3.0	-2.4
Within Asia	-7.4	-0.2	-9.4	9.8
Asia - Middle East	-2.7	1.0	-1.7	2.7
Asia - S/w Pacific	-5.2	-1.3	-13.1	-0.4
Asia - Africa	12.4	17.0	2.3	8.8

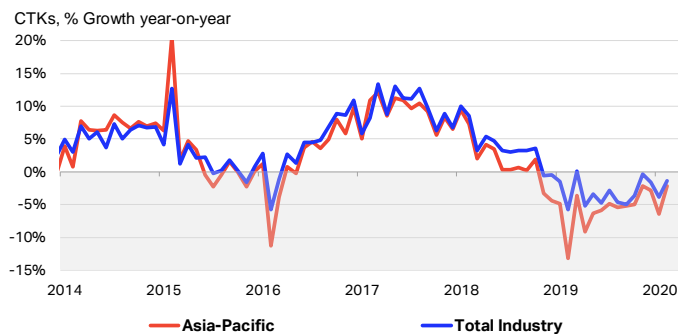
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide cargo tonne kilometres were 1.4% lower than their level of February 2019. However, the relatively moderate decline largely reflects the weak outcome a year ago. Indeed, in month-on-month terms, CTKs fell by 9.1% amid the virus crisis.
- COVID-19 weighed significantly on CTKs in the Asia Pacific region – the world's primary manufacturing and distribution hub. Indeed, in month-on-month terms, air

cargo volumes declined by a sizeable 15%. As was the case at the industry level, the region's modest yoy CTK decline reflects a very weak outcome for February 2019 – the height of the China-US trade war.

- Of the region's key markets, Asia-Europe contracted by 6.4%yoy – more than twice the pace of decline compared with January. The Within Asia market saw cargo volumes increase by ~10%yoy, which, again, is a largely a reflection of the soft February 2019 outcome (-15.5%yoy).

Growth in air cargo volumes



Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2019	Dec-19	Jan-20	Feb-20
LF: % of ASK/ACTK					
Passenger					
Asia Pacific	ASK	4.6	2.7	2.3	-28.2
	PLF	81.9	81.7	80.0	67.8
World	ASK	3.4	2.2	1.7	-8.7
	PLF	82.6	82.2	80.4	75.9
Cargo					
Asia Pacific	ACTK	1.1	2.7	-1.1	-17.7
	CLF	52.3	52.3	47.7	54.3
World	ACTK	2.3	4.2	0.8	-4.4
	CLF	46.7	46.6	44.7	46.4

Source: IATA Statistics. Asia-Pac incl North Asia. LF= load factor. ASK=available seat kms. ACTK=available cargo tonne kms.

- With RPKs falling at almost twice the rate of capacity, the industry-wide passenger load factor (PLF) dropped by a significant 4.8ppts vs a year ago. The Asia Pacific PLF eased even more sharply, down 15.1ppts yoy.
- The cancellation of passenger flights due to COVID-19 removed considerable bellyhold capacity from the cargo market. With ACTKs falling faster than CTKs, the industry-wide CLF picked up by 1.5ppts vs a year ago. At the regional level, Asia Pacific airlines recorded a CLF 8.6ppts higher vs a year ago.
- The Q4 2019 airline financial data show a slightly higher industry-wide profit result ahead of the COVID-19

Airline operating (EBIT) margins*

% revenues	2018	2019E	2018Q4	2019Q4
Asia Pacific	4.7	3.5	4.7	5.6
Industry	5.7	5.1	5.9	7.0

Source: Airline Analyst * constant sample basis, not seasonally adjusted Asia-Pac incl Nth Asia

crisis. At the regional level, the EBIT margin rose by around 1ppt to 5.6% of revenues.

- Developments in passenger yields (denominated in US\$) deteriorated across the key markets for the region. Yield growth fell into a negative territory on China domestic routes (-13.5%yoy). Yields also declined sharply for the Within Asia market (-17.2%) and to a lesser extent on Asia-Europe routes (-5.7%).

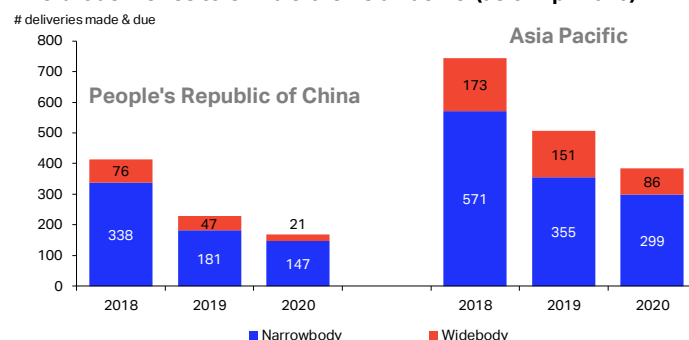
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Dec-19	Jan-20	Feb-20
China domestic	-6.1	0.3	8.8	-13.5
Asia - Europe	-7.7	-6.6	-2.2	-5.7
Within Asia	-4.5	-2.5	3.7	-17.2
Asia - Nth America	-2.6	-4.5	4.2	4.0
Asia - Middle East	7.7	5.6	6.0	0.5
Asia - Sth America	-7.8	-4.0	-1.8	-4.8
Asia - Africa	-5.8	-4.4	3.1	-2.1

Source: DDS Note: historical data may be subject to revision

- The latest data point to a fall in the number of jet aircraft deliveries scheduled for both Chinese and the Asia Pacific airlines in 2020 compared to 2019.

Aircraft deliveries to China & the Asia Pacific (as of Apr 2020)



Note: Asia Pacific includes North Asia