STATE OF THE REGION: NORTH ASIA

APRIL 2017

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q2	2016Q3	2016Q4
China	7.0	6.7	6.7	6.7
Chinese Taipei	0.7	1.4	2.4	2.8
Hong Kong	2.4	1.7	2.0	3.1
Mongolia	2.5	-0.3	-7.3	9.8
Emerging Asia	6.6	--	--	--
World*	**2.3**	**2.1**	**2.2**	**2.4**

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US$	2016	Jan-17	Feb-17	Mar-17
US$ broad index	127.7	127.6	125.8	125.3
Chinese renminbi (CNY)	6.96	6.88	6.87	6.89
Taiwanese dollar (TWD)	32.3	31.2	30.6	30.4
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tughrik (MNT)	2488	2455	2468	2446

Source: Datastream, XE

World oil and jet fuel price

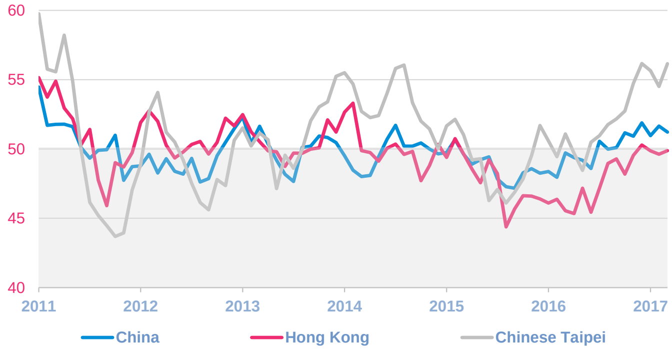
US$/barrel	2016	Jan-17	Feb-17	Mar-17
Crude oil (Brent)	52.4	54.6	54.9	51.6
Jet fuel	64.0	63.6	65.0	60.7

Source: Platts, EIA Monthly average data

- Notwithstanding the expected month-to-month volatility, business confidence in the main Nth Asia countries has, overall, been broadly steady over recent months.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

Chinese Taipei remains the clear standout, with business confidence regarding the outlook at an elevated level. Sentiment remains positive, but less buoyant for China & remains lackluster in Hong Kong, despite a strong recent improvement.

- The US$ eased slightly again in Mar, down 0.4% on a trade-weighted basis. Of the main regional currencies, both the TWD & MNT rose by an outsized 0.8-0.9% vs the US$ in the month, while the CNY fell slightly, by a modest 0.3%.
- Both Brent crude oil & jet fuel prices corrected sharply downwards in Mar, falling 6-6.5%, to US$51.60/bbl & US$60.70/bbl, respectively.

Market

Revenue passenger kilometers (RPKs)

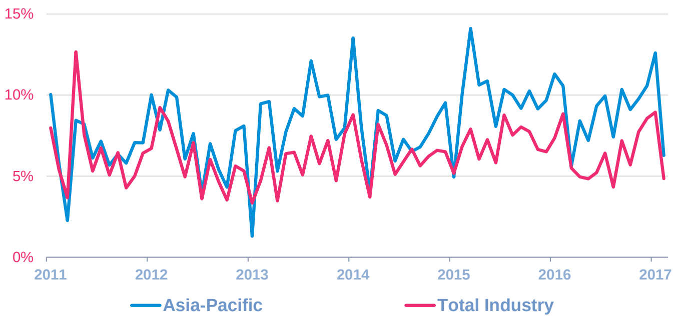
%change on a yr ago	2016	Dec-16	Jan-17	Feb-17
Region (registration basis)				
Asia Pacific	9.1	10.6	12.6	6.3
World	6.3	8.6	8.9	4.8
Routes (segment basis)				
China domestic	11.7	15.4	18.5	9.1
Asia - Europe	1.8	9.3	6.9	7.8
Within Asia	7.3	7.4	8.2	3.1
Asia - Nth America	6.4	8.2	7.5	2.2
Asia - Middle East	9.0	11.9	9.8	5.4
Asia - S/w Pacific	3.8	5.5	7.4	3.4
Asia - Africa	6.8	0.9	2.1	1.3

Source: IATA Statistics Asia-Pac incl North Asia

- Growth in global RPKs fell sharply in Feb, to 4.8%yoy, from last month's 5yr high of 8.9%. Recall that at this time of year the data are more volatile than usual due to the impact of Chinese New Year &, on this occasion, the 2016 leap year.
- A similar, albeit larger, step-down in growth is evident at the regional level. RPK growth for the Asia Pacific carriers halved this month, falling to a (still healthy) 6.3%yoy pace.
- Despite a sharp easing in yoy growth in Feb (to 9.1%), the China domestic market remains fundamentally sound, underpinned by ongoing robust activity, particularly in the country's services sector, & an expected increase of more than 7% in average flight frequencies this year.
- The Asia-Europe market is the strongest performer of the main international markets, with RPK growth of almost 8% over the past year. In contrast, Africa-Asia has the slowest growth, with RPKs up just 1.3%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

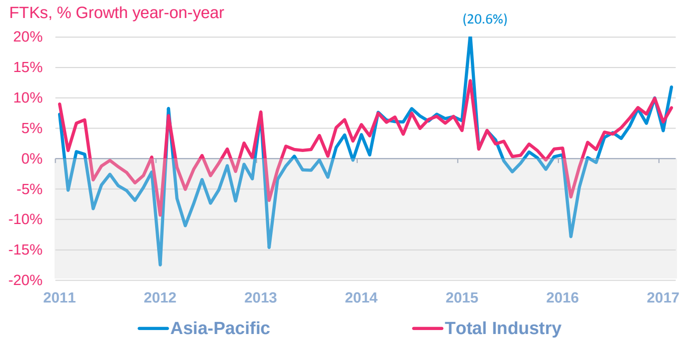
Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Dec-16	Jan-17	Feb-17
Region (registration basis)				
Asia Pacific	2.1	10.0	4.6	11.8
World	3.8	10.0	6.1	8.4
Routes (segment basis)				
Asia - Europe	3.9	15.4	9.2	10.6
Asia - Nth America	-1.2	8.5	5.6	7.7
Within Asia	7.0	17.5	8.7	20.5
Asia - Middle East	3.7	4.1	-0.8	-6.5
Asia - S/w Pacific	1.1	-1.5	-7.0	5.2
Asia - Africa	30.1	57.2	48.4	31.8

Source: IATA Statistics Asia-Pac incl North Asia

- Global FTKs grew by a brisk 8.4%yoy in Feb, up from 6% last month & well above the 5yr average pace of ~3%, even without adjusting for the leap year or Chinese New Year impacts.
- At the regional level, FTK growth also increased for the Asia-Pac carriers this month, rebounding strongly, back to a double-digit pace of 11.8%.
- Generally speaking, growth rates across the main Asia markets recovered this month. The notable exception was Asia-Middle East, where volumes slipped further, & are now a hefty 6.5% below their level of a year ago.
- Within Asia is the fastest growing of the largest markets, with FTKs up 20%yoy. Asia-Europe is also in double-digit growth at 10.6%.

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	Dec-16	Jan-17	Feb-17
Passenger					
Asia Pacific	ASK	8.1	7.7	9.5	3.4
	PLF	*79.6*	*80.5*	*81.5*	*81.4*
World	ASK	6.3	6.6	7.4	2.7
	PLF	*80.5*	*80.6*	*80.2*	*79.5*
Freight					
Asia Pacific	AFTK	3.6	5.4	5.2	2.0
	FLF	*52.8*	*55.3*	*49.4*	*49.3*
World	AFTK	5.3	3.5	2.9	-0.4
	FLF	*43.0*	*46.1*	*42.0*	*43.5*

Source: IATA Statistics. Asia-Pac incl North Asia. LF=seasonally adjusted load factor. ASK=available seat kms. AFTK=available freight tonne kms,

- Capacity growth by the Asia-Pac carriers continues to outpace that of the overall industry. Asia-Pac ASKs are up 3.4% & AFTKs are up 2.0% on their year-ago levels, compared with 2.7% & a fall of 0.4%, respectively, for the industry.
- The Asia-Pac carriers are also outperforming the overall industry on both passenger & freight load factors, with 81.4% (vs 79.5% industry-wide) for the PLF & 49.3% (vs 43.5%) for the FLF.
- The latest Q4 financials show a modest improvement in the EBIT margin for the Asia-Pac carriers compared with the same period a year previous; an even 10% in 2016Q4, up from 8.5%. The corresponding industry-wide margin has eased a little, down 1pp to 8.3% currently.

Airline operating (EBIT) margins*

%revenues	2014	2015	2015Q4	2016Q4
Asia Pacific	2.5	7.7	8.5	10.0
Industry	4.7	8.3	9.3	8.3

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

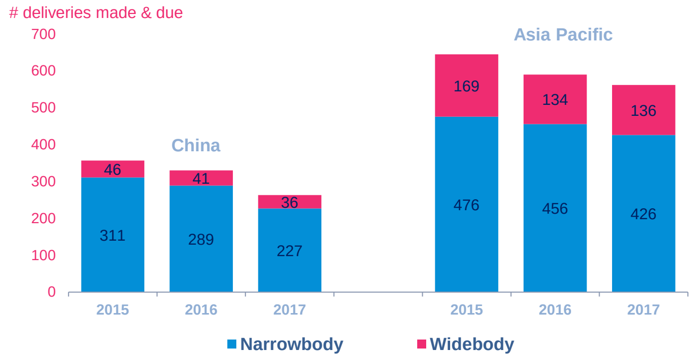
- Despite being 8-9%yoy lower, global average pax yields continue to show tentative indications of having possibly bottomed. At the regional level, yields across all key markets remain lower in yoy terms but with considerable variation across markets.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Dec-16	Jan-17	Feb-17
China domestic	0.0	-12.1	-8.6	-6.7
Asia - Europe	-10.3	-8.1	-8.5	-3.7
Within Asia	-10.0	-11.1	-9.2	-7.8
Asia - Nth America	-7.2	-4.3	-5.3	-2.3
Asia - Middle East	-10.5	-13.9	-15.5	-11.6
Asia - Sth America	-9.1	-10.3	-10.7	-8.8
Asia - Africa	-8.8	-10.5	-7.3	-3.0

Source: IATA PaxIS

Aircraft deliveries to China & the Asia Pacific (latest data)



Source: Ascend

Asia-Pac incl North Asia