



STATE OF THE REGION: NORTH ASIA

AUGUST 2017

Economy

GDP growth, selected countries

%change on a yr ago	2016	2016Q4	2017Q1	2017Q2
China	6.7	6.7	6.9	6.9
Chinese Taipei	1.5	2.7	2.3	2.1
Hong Kong	2.0	3.2	4.3	3.8
Mongolia	1.1	9.8	4.2	--
Emerging Asia	6.4	--	--	--
World*	2.3	2.6	2.6	2.8

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	May-17	Jun-17	Jul-17
US\$ broad index	127.7	123.8	122.3	120.7
Chinese renminbi (CNY)	6.96	6.81	6.78	6.73
Taiwanese dollar (TWD)	32.3	30.1	30.4	30.2
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2392	2347	2442

Source: Datastream, XE

World oil and jet fuel price

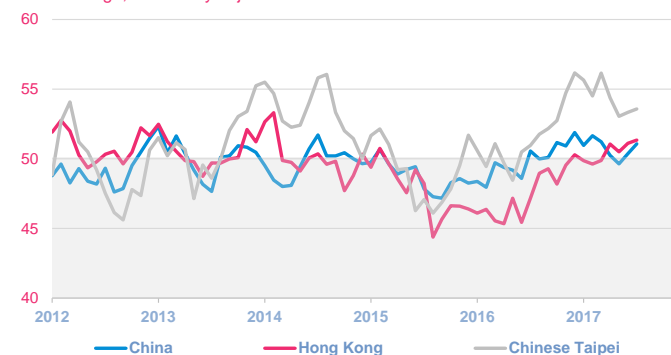
US\$/barrel	2016	May-17	Jun-17	Jul-17
Crude oil (Brent)	52.4	50.3	46.4	48.5
Jet fuel	64.0	59.3	54.4	59.5

Source: Platts, EIA Monthly average data

- Business confidence in each of the region's main markets ticked up this again this month, supported by generally positive economic news. In China, Q2 GDP data were stronger than analysts had expected, although growth in consumer spending per head slowed.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Business sentiment in Hong Kong has been supported by demand from China & indications that officials may raise the growth forecast for this year. Chinese Taipei continues to post the highest level of business confidence of the three key regional markets.

- The US\$ repeated last month's performance, ending July 1.3% lower on a trade-weighted basis. Of the main regional currencies, the MNT fell 4% in the month vs the US\$ & unwound most of its recent gains. The CNY rose by 0.8%, but is down just over 3% for the year to date.
- Brent crude oil & jet fuel prices both rose in July, the former up 4.5% to US\$48.50/bbl, & the latter up a hefty 9.4%, back to almost US\$60/bbl. The market continues to be strongly influenced by supply-side considerations.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Apr-17	May-17	Jun-17
Region (registration basis)				
Asia Pacific	9.0	11.0	11.8	11.6
World	6.4	11.0	7.7	7.8
Routes (segment basis)				
China domestic	11.7	12.7	16.8	17.6
Asia - Europe	1.8	14.5	15.3	10.6
Within Asia	7.3	7.1	6.5	6.5
Asia - Nth America	6.4	8.6	5.8	5.3
Asia - Middle East	9.0	10.0	6.0	4.6
Asia - S/w Pacific	3.8	17.3	9.2	9.4
Asia - Africa	6.8	4.7	8.1	4.8

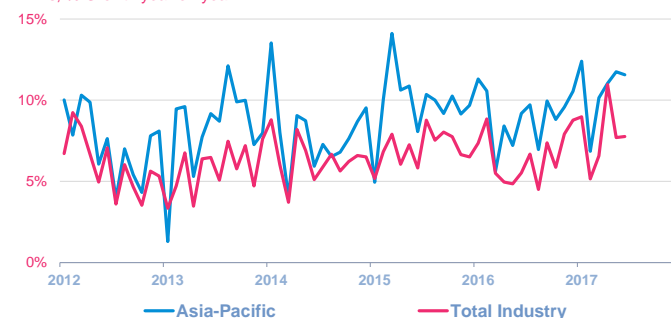
Source: IATA Statistics Asia-Pac incl North Asia

- At the industry-wide level, RPKs grew by a brisk 7.8%yoy in June & by a similar rate (7.9%) in 1H17 as a whole – the fastest first half in 12 years (since 2005).
- Yoy growth in passenger volumes for the region's carriers was also largely unchanged in June, at a very robust 11.6% & retaining the 4pp margin above the industry-wide pace.

- RPK growth for the China domestic market ticked a little higher in June, to 17.6%yoy. Supply-side factors – including growth in the number of airport pairs – continue to support air travel demand.
- Of the main international markets, Asia-Europe remains the strongest performer with double-digit RPK growth of 10.6%yoy, followed by (the smaller) Asia-S/w Pacific (9.4%) & Within Asia (6.5%).

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Apr-17	May-17	Jun-17
Region (registration basis)				
Asia Pacific	2.0	9.1	11.6	10.1
World	3.9	8.6	12.7	11.0
Routes (segment basis)				
Asia - Europe	3.9	13.9	15.1	13.8
Asia - Nth America	-1.2	8.0	11.1	10.6
Within Asia	7.0	14.0	13.7	11.4
Asia - Middle East	3.7	1.4	10.1	2.3
Asia - S/w Pacific	1.1	2.9	10.5	27.1
Asia - Africa	30.1	66.5	72.9	79.7

Source: IATA Statistics Asia-Pac incl North Asia

- Global FTK growth slowed a little in June, but maintained its double-digit pace, up 11.0%yoy. For 1H17 overall, FTKs grew by 10.4%yoy – the strongest 1st half-year since the rebound from the financial crisis in 2010.
- For the AsiaPac carriers, FTK growth also eased a little this month, to 10.1%yoy. While exporters in the region are reporting more mixed conditions for their order

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Apr-17	May-17	Jun-17
Passenger					
Asia Pacific	ASK	8.0	8.2	8.6	9.4
	PLF	79.6	81.3	79.7	80.9
World	ASK	6.4	7.2	6.2	6.5
	PLF	80.5	82.1	80.0	81.9
Freight					
Asia Pacific	AFTK	3.5	4.3	5.7	7.8
	FLF	52.8	54.7	55.0	55.5
World	AFTK	5.4	3.7	4.8	5.2
	FLF	43.0	45.1	45.3	45.0

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

- Even with solid capacity growth, the industry-wide load factor outcomes remain robust, indeed the PLF posted an all-time high for the first half of a year (at 80.7%).
- AsiaPac airlines have increased both pax & freight capacity substantially over the past year, with growth in both segments around 3pp higher than the overall industry rate. The AsiaPac PLF for June was 80.9%, down 1pp on the industry result, but at 55.5%, the FLF was up more than 10pp on the global outcome.
- The initial Q2 financial data show an improved performance following the margin squeeze evident in Q1. At 4.6%, the EBIT margin for AsiaPac carriers is up

Airline operating (EBIT) margins*

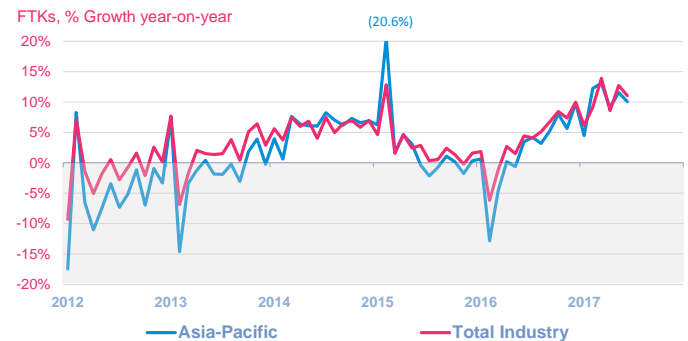
%revenues	2015	2016	2016Q2	2017Q2
Asia Pacific	8.0	10.0	3.9	4.6
Industry	8.5	8.8	12.7	13.2

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

books, there is no indication so far that the (seas-adj) trend in international freight volumes has slowed.

- Each of the three largest international markets are currently showing double-digit FTK growth, with Asia-Europe the standout, at 13.8%yoy. Although much smaller, the performance of the Asia-Africa market is notable, with FTKs up a massive 80%yoy.

Growth in air freight volumes



Source: IATA Statistics

modestly on the outcome from a year ago (3.9%) but remains well below the current industry figure of 13.2% (which is also a slight improvement on 2Q16 (12.7%)).

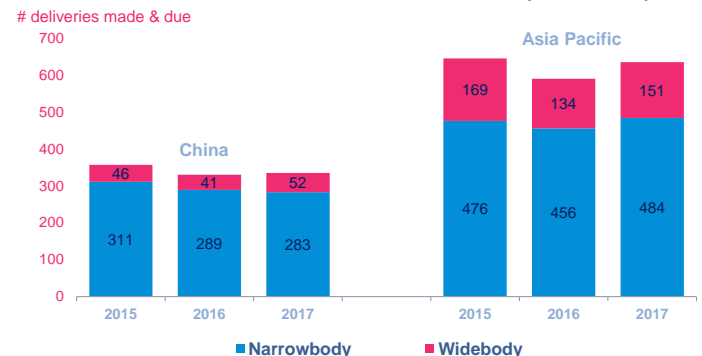
- Global passenger yields are currently around the same level as a year ago. At the regional level, the data are broadly consistent with indications that yields may be bottoming. Indeed, in some markets (specifically Asia-Europe & Asia-Middle East) pax yields are now modestly higher than their level of a year ago. China domestic yields, however, are still down 7% in yoy terms.

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

%change on a yr ago	2016	Apr-17	May-17	Jun-17
China domestic	-7.6	-9.3	-8.2	-7.0
Asia - Europe	-10.3	-5.4	1.5	1.7
Within Asia	-10.0	-7.8	-5.6	-5.7
Asia - Nth America	-7.2	-2.2	-2.7	-1.8
Asia - Middle East	-10.5	-4.3	0.8	1.4
Asia - Sth America	-9.1	-1.8	-1.6	-1.3
Asia - Africa	-8.8	-2.7	-0.9	-0.7

Source: IATA PaxIS

Aircraft deliveries to China & the Asia Pacific (2Q17 data)



Source: Ascend

Asia-Pac incl North Asia