



STATE OF THE REGION: NORTH ASIA

AUGUST 2018

Economy

GDP growth, selected countries

%change on a yr ago	2017	2017Q4	2018Q1	2018Q2
China	6.9	6.9	6.8	6.8
Chinese Taipei	2.9	3.4	3.2	2.9
Hong Kong	3.8	3.4	4.6	3.5
Mongolia	5.2	6.3	6.3	6.1
Emerging Asia	6.5	--	--	--
World*	3.2	3.2	3.2	3.1

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	May-18	Jun-18	Jul-18
US\$ broad index	120.0	121.5	123.4	124.1
Chinese renminbi (CNY)	6.51	6.41	6.62	6.82
Taiwanese dollar (TWD)	29.7	30.0	30.5	30.6
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.9
Mongolian tugrik (MNT)	2429	2407	2460	2464

Source: Datastream, XE

World oil and jet fuel price

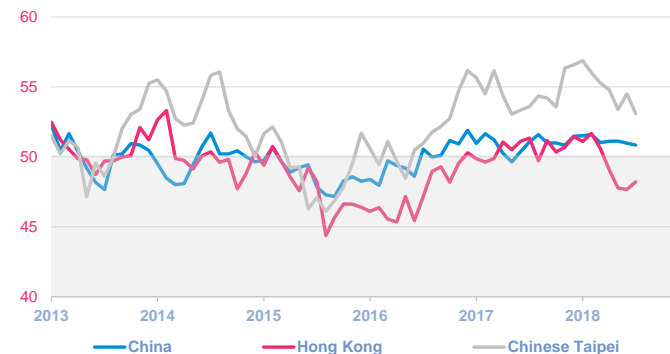
US\$/barrel (period ave.)	2017	May-18	Jun-18	Jul-18
Crude oil (Brent)	54.2	77.0	74.4	74.3
Jet fuel	65.6	90.5	87.8	88.1

Source: Platts, EIA Monthly average data

- Business confidence in Hong Kong ticked up a little this month, but remains firmly in the region typically associated with declining output.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- Sentiment in China continued its recent sideways trend, with softer output and new orders weighing on this month's outcome amidst ongoing concerns over a possible escalation of trade tensions.
- On a trade-weighted basis, the US\$ rose by a modest 0.5% in June, its 6th consecutive monthly increase. Regional currency movements were muted, apart from the CNY which ended the month down 3% vs the US\$.
- Brent crude oil & jet fuel prices were largely unchanged across July, consolidating their moderate June decline. Oil & jet fuel prices are ~50% higher than their level of a year ago.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Apr-18	May-18	Jun-18
Region (registration basis)				
Asia Pacific	10.2	10.9	8.6	11.2
World	7.6	6.0	6.0	7.8
Routes (segment basis)				
China domestic	13.4	16.1	11.9	15.3
Asia - Europe	9.5	5.0	4.4	7.9
Within Asia	11.2	10.5	9.7	14.3
Asia - Nth America	4.9	5.3	4.2	4.0
Asia - Middle East	7.3	4.4	-0.8	8.1
Asia - S/w Pacific	9.2	2.9	8.4	8.6
Asia - Africa	4.1	12.6	4.7	7.4

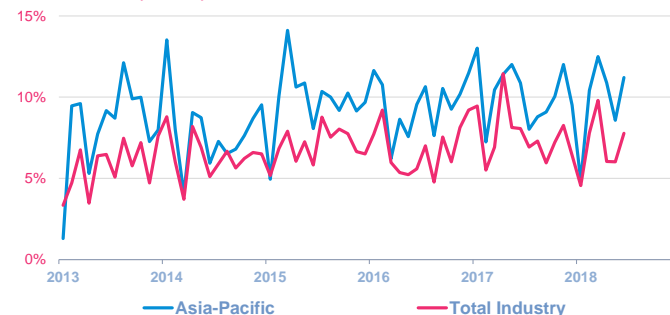
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide RPKs stepped up to a brisk 7.8% year-on-year pace in June, from an even 6.0% in both April and May. The first 6mths of the year produced RPK growth of 7.0% – a robust, above-trend performance, but down somewhat on the 8.3% pace of the same period in 2017.
- Pax volume growth for the AsiaPac carriers recovered, to a double-digit 11.2% year-on-year pace this month, with the region retaining its position as the fastest growing in terms of pax volumes.

- The pace of China domestic RPK growth lifted to a very robust 15.3%yoy in June, with the strong upwards trend in passenger volumes remaining firmly in place. This growth continues to be supported by increases in the number of domestic airport connections.
- As has been the case for some time now, Within Asia is still the standout amongst the region's main international markets. Growth in pax volumes for that market lifted to a hefty 14.3% pace this month, supported by a broadly favourable regional economic backdrop.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Apr-18	May-18	Jun-18
Region (registration basis)				
Asia Pacific	7.7	4.8	4.0	1.5
World	9.1	4.5	3.8	2.7
Routes (segment basis)				
Asia - Europe	11.0	-1.1	-0.8	-0.5
Asia - Nth America	8.7	6.1	4.8	2.0
Within Asia	13.0	3.0	6.1	0.4
Asia - Middle East	6.3	6.3	2.8	4.8
Asia - S/w Pacific	9.4	3.3	6.1	-0.6
Asia - Africa	58.6	4.1	-0.7	-14.6

Source: IATA Statistics Asia-Pac incl North Asia

→ Annual growth in industry-wide FTKs slowed further in June, to 2.7% from 3.8% in Apr, and are only around half the 5yr-year average rate. The loss of momentum in air freight demand is consistent with the broad moderation in export orders since the start of the year.

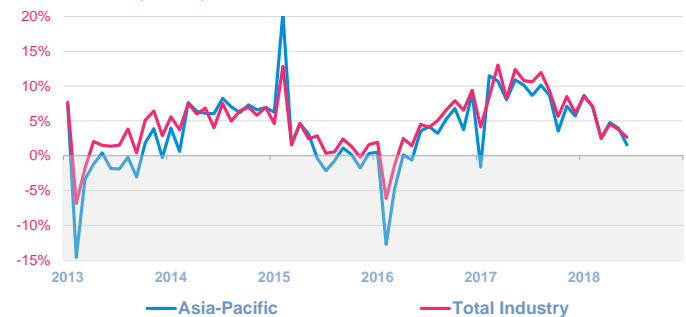
→ At the regional level, FTK growth slowed considerably, to a modest 1.5%yoy, partly reflecting the impact of the grounding of the Nippon Cargo fleet in the month.

→ Across the region's main international markets, Asia-Middle East is growing at a robust 4.8%yoy. FTK growth on the Asia-Nth America market slowed again this month, to 2.0%yoy.

→ Annual declines in freight volumes are currently evident for the Africa (down 14.6%yoy), Europe (the largest international market, down 0.5%) & Southwest Pacific (down 0.6%) markets.

Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK	2017	Apr-18	May-18	Jun-18
Passenger				
Asia Pacific ASK	8.4	9.4	8.6	9.8
Asia Pacific PLF	81.0	82.6	79.5	81.7
World ASK	6.3	6.0	5.9	6.5
World PLF	81.5	82.2	80.0	82.8
Freight				
Asia Pacific AFTK	3.0	8.1	7.5	5.2
Asia Pacific FLF	55.2	54.3	54.8	54.5
World AFTK	3.6	4.7	5.0	4.1
World FLF	45.2	45.2	44.9	44.3

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

→ The industry-wide passenger load factor (PLF) is 1pp higher than its year ago level, at 82.8%. However, the freight load factor (FLF) has eased moderately, down 0.6pp vs a year ago to 44.3% currently.

→ For the region's airlines, faster ASK growth over the past year has contributed to the PLF being slightly below the industry figure this month, at 81.7%. On the freight side, the AsiaPac FLF has been above 54% for the past 4mths, setting the benchmark for the other regions.

→ The latest financial data for Q2 show a modest easing in the industry EBIT margin outcome compared with that

Airline operating (EBIT) margins*

%revenues	2016	2017	2017Q2	2018Q2
Asia Pacific	7.4	5.5	2.5	2.5
Industry	8.5	7.5	11.6	9.2

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

of a year ago; 9.2% currently vs 11.6% in 2Q17. For the AsiaPac airlines, the outcome is unchanged vs a year ago, at 2.5%. Recall that these data are not adjusted for seasonal influences.

→ Passenger yield developments across the region's key markets over the past year are generally robust, with the exception of Asia-ME where yields are down ~4%. Of note, China domestic yields are currently 6.4% higher than their level of a year ago, followed by Asia-Sth America (up 5.1%).

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

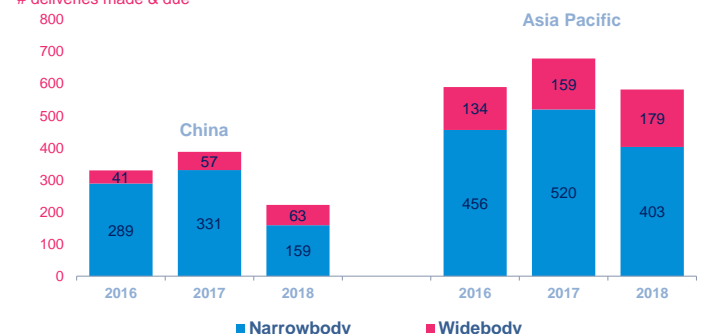
%change on a yr ago	2017	Apr-18	May-18	Jun-18
China domestic	-5.3	11.7	11.4	6.4
Asia - Europe	1.9	9.5	2.5	1.9
Within Asia	-5.6	6.5	4.4	1.7
Asia - Nth America	-3.2	2.4	2.8	4.3
Asia - Middle East	-3.5	-5.0	-6.9	-4.0
Asia - Sth America	-4.2	5.5	3.2	5.1
Asia - Africa	-0.1	2.9	0.6	4.2

Source: IATA PaxIS

Note: historical data may be subject to revision

Aircraft deliveries to China & the Asia Pacific

deliveries made & due



Source: Ascend

Note: Asia-Pac incl North Asia