

State of the region: North Asia

August 2019

Economy

GDP growth, selected economies

| % change on a yr ago | 2018 | Q4 2018 | Q1 2019 | Q2 2019 |
|----------------------------|------------|------------|------------|------------|
| People's Republic of China | 6.6 | 6.4 | 6.4 | 6.2 |
| Chinese Taipei | 2.6 | 1.8 | 1.9 | 2.2 |
| Hong Kong (SAR), China | 3.0 | 1.2 | 0.6 | 0.5 |
| Mongolia | 6.8 | 9.1 | 8.6 | 6.2 |
| Emerging Asia | 6.4 | -- | -- | -- |
| World* | 3.2 | 2.8 | 2.7 | 2.5 |

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

| end of period, # per US\$ | 2018 | May-19 | Jun-19 | Jul-19 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 128.5 | 128.7 | 128.3 | 127.8 |
| Chinese renminbi (CNY) | 6.88 | 6.90 | 6.87 | 6.88 |
| Taiwanese dollar (TWD) | 30.7 | 31.6 | 31.1 | 31.1 |
| Hong Kong dollar (HKD) | 7.83 | 7.84 | 7.81 | 7.83 |
| Mongolian tugrik (MNT) | 2640 | 2649 | 2662 | 2666 |

Source: Datastream

World oil and jet fuel price

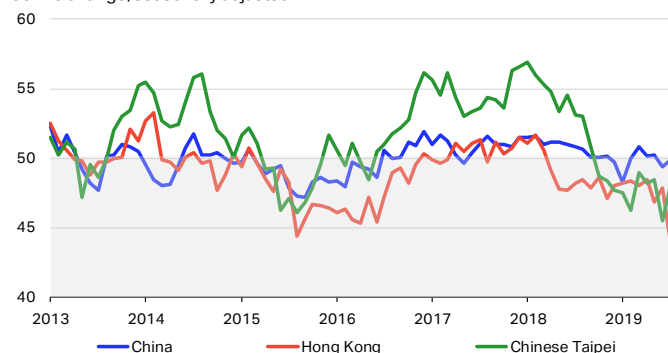
| US\$/barrel (period ave.) | 2018 | May-19 | Jun-19 | Jul-19 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 71.7 | 70.4 | 63.2 | 64.3 |
| Jet fuel | 86.4 | 84.4 | 76.5 | 80.4 |

Source: Platts, Datastream (monthly average data)

- Chinese business confidence improved in July reflecting the positive impact of tax reductions supporting the economy. On the other hand, business

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

confidence in Hong Kong had its steepest decline in a decade, reflecting softening demand conditions due to the broader impacts of the ongoing US-China trade tensions and the social disruptions in that country.

- On a trade-weighted basis, the US\$ eased by 0.3%, its second consecutive monthly decrease. Among regional currencies, the CNY and HKD continued to depreciate against US\$, easing by a modest 0.2-0.3% this month.
- Jet fuel and crude oil prices continued to be volatile following signs of weakening in the global economy and tensions in the Middle East oil supply.

Market

Revenue passenger kilometers (RPKs)

| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 9.1 | 2.7 | 5.0 | 4.7 |
| World | 6.9 | 4.3 | 4.7 | 5.0 |
| Routes (segment basis) | | | | |
| China domestic | 11.7 | 4.3 | 7.6 | 8.3 |
| Asia - Europe | 7.1 | 8.5 | 10.4 | 6.8 |
| Within Asia | 10.2 | 7.2 | 6.9 | 7.3 |
| Asia - Nth America | 3.9 | 3.2 | 5.2 | 2.1 |
| Asia - Middle East | 4.4 | 3.6 | 1.6 | 8.1 |
| Asia - S/w Pacific | 7.2 | 7.1 | 10.6 | 6.8 |
| Asia - Africa | 9.4 | -0.5 | 2.5 | 9.8 |

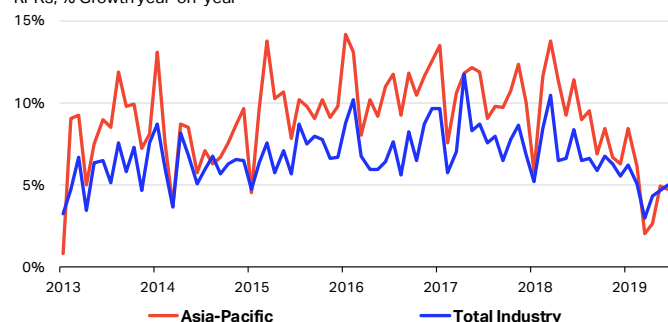
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) increased by an even 5.0% over the 12 months to June, the best outcome since February. That said, the pace remained a little slower than the 20-year average growth rate of around 5.5%.
- In Asia Pacific, the pace of RPK growth (4.7%) is slightly lower than overall industry growth rate. The growth rate eased compared to the previous month as the growth in some of main international markets lost momentum.

- Passenger demand maintained its solid upward trend in the domestic China market, increasing by 8.3% y-o-y following the rebound to 7.6% in May.
- Of the key international markets in the region, growth in Asia-Europe eased following a rebound to over 10% last month, but it is still strong at 6.8%. For the Within Asia market, growth remains solid at 7.3%.
- In the smaller size Asia- Africa and Asia-Middle East markets, the pace of y-o-y growth rose sharply in June compared to the previous month.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 1.4 | -10.2 | -6.4 | -5.4 |
| World | 3.6 | -5.6 | -3.5 | -4.8 |
| Routes (segment basis) | | | | |
| Asia - Europe | 1.1 | -6.0 | 1.9 | -4.0 |
| Asia - Nth America | 3.7 | -7.8 | -5.2 | -4.3 |
| Within Asia | 0.6 | -11.1 | -10.7 | -7.0 |
| Asia - Middle East | 4.8 | -4.0 | -6.7 | -4.7 |
| Asia - S/w Pacific | 3.0 | 0.6 | -4.0 | -8.1 |
| Asia - Africa | -4.0 | 10.9 | 12.0 | 7.3 |

Source: IATA Statistics Asia-Pac incl North Asia

- Additional tariff increases in the ongoing US-China trade dispute that came into effect on June 1st are likely to have contributed to further fall in annual FTK growth rate in June (volumes down 4.8% y-o-y).
- For Asia Pacific carriers, FTKs fell by 5.4% vs the same period a year ago. The aforementioned tariff increases, along with increased expectations of further slowing in GDP growth are both likely to have played a role in this.

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK | | 2018 | Apr-19 | May-19 | Jun-19 |
|---|------|------|--------|--------|--------|
| Passenger | | | | | |
| Asia Pacific | ASK | 8.5 | 3.7 | 3.9 | 4.0 |
| | PLF | 81.5 | 81.7 | 80.2 | 82.1 |
| World | ASK | 6.5 | 3.3 | 2.7 | 3.3 |
| | PLF | 81.9 | 83.0 | 81.6 | 84.4 |
| Freight | | | | | |
| Asia Pacific | AFTK | 4.0 | -1.3 | 0.0 | 1.8 |
| | FLF | 55.8 | 50.9 | 52.4 | 52.2 |
| World | AFTK | 4.9 | 1.7 | 1.4 | 2.6 |
| | FLF | 49.3 | 46.3 | 46.8 | 45.4 |

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

- The industry saw a record-high passenger load factor (PLF) for the month of June as the pace of capacity growth continued to be slower than that of demand. The story was less positive on the freight side with the FLF well below that of June 2018 (48.9%).
- In Asia Pacific, the PLF improved compared to the previous month and jumped to record-high (82.1%) outcome for any June month. By contrast, the FLF remained subdued, almost 4ppt lower vs a year ago.
- The initial releases of airline financial data for Q2 2019 (limited sample of 25 airlines) point to an improved industry-wide profitability compared to the prior year.

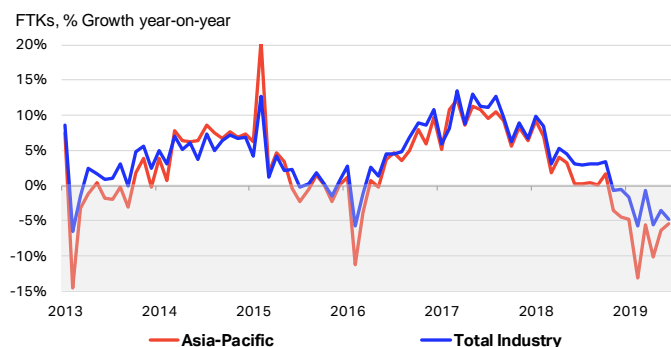
Airline operating (EBIT) margins*

| % revenues | 2017 | 2018 | 2018Q2 | 2019Q2 |
|--------------|------|------|--------|--------|
| Asia Pacific | 6.3 | 4.5 | 4.2 | 5.3 |
| Industry | 7.5 | 5.8 | 10.3 | 10.9 |

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

- Apart from Africa-Asia route, volumes declined in annual terms on all key markets. Within Asia routes and Asia-S/w Pacific routes posted the weakest growth.
- Growth for the largest Asia-Europe market eased following a temporary rebound in May. The smallest Africa-Asia is the only growing market, posting a positive outcome for the fourth consecutive month.

Growth in air freight volumes



Source: IATA Statistics

- In Asia Pacific, overall profitability improved by 1.1 ppt compared to Q2 2018 driven by performance in India, notwithstanding the disruption of recent events.
- In June, pax yield growth continued to be negative in most of the key domestic and international markets, including for larger routes such as Asia-Europe. Asia-Middle East was an exception, with yields up an even 10% y-o-y.

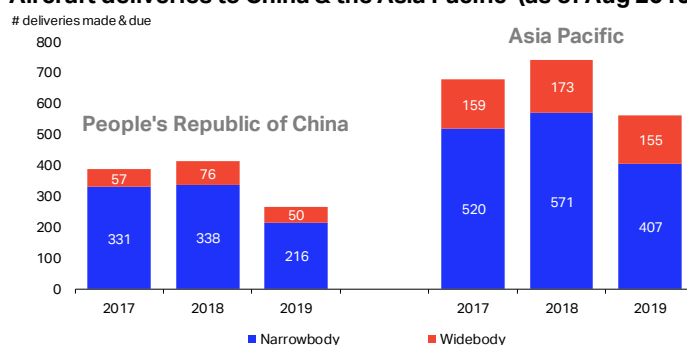
Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|----------------------|------|--------|--------|--------|
| China domestic | -0.3 | -9.3 | -6.7 | -8.8 |
| Asia - Europe | -1.9 | -6.9 | -3.1 | -10.3 |
| Within Asia | -1.9 | -4.9 | -3.9 | -6.2 |
| Asia - Nth America | -2.7 | -1.4 | -1.2 | -3.8 |
| Asia - Middle East | -1.7 | 14.3 | 14.8 | 10.0 |
| Asia - Sth America | 0.7 | -7.7 | -11.2 | -11.7 |
| Asia - Africa | 0.8 | -3.8 | -5.4 | -7.1 |

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data show a reduction in the number of jet aircraft deliveries to both Asia Pacific and Chinese airlines in 2019 vs 2018.

Aircraft deliveries to China & the Asia Pacific (as of Aug 2019)



Source: Ascend

Note: Asia Pacific includes North Asia