

State of the region: North Asia

August 2021

Economy

GDP growth, selected economies

% change on a yr ago	2020	Q4 2020	Q1 2021	Q2 2021
People's Republic of China	2.0	6.5	18.3	7.8
Chinese Taipei	3.1	4.9	8.7	8.4
Hong Kong (SAR), China	-6.1	-2.8	8.0	7.6
Mongolia	-5.4	-0.9	15.5	--
Emerging Asia	-1.0	--	--	--
World*	-3.5	-1.2	2.6	11.4

Source: Eikon Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2020	May-21	Jun-21	Jul-21
US\$ broad index	112.1	111.5	111.9	113.3
Chinese renminbi (CNY)	6.52	6.38	6.46	6.46
Taiwanese dollar (TWD)	28.1	27.6	27.9	28.0
Hong Kong dollar (HKD)	7.75	7.76	7.77	7.77
Mongolian tugrik (MNT)	2855	2861	2858	2863

Source: Board of Governors of the Federal Reserve System (US), Eikon Datastream

World oil and jet fuel price

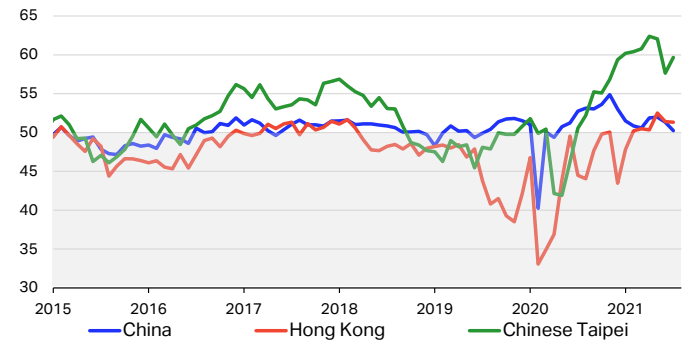
US\$/barrel (period ave.)	2020	May-21	Jun-21	Jul-21
Crude oil (Brent)	43.4	68.4	73.5	74.4
Jet fuel	46.3	73.4	77.6	79.5

Source: Platts, Eikon Datastream (monthly average data)

- Q2 GDP figures confirm that China's economy continues to grow, albeit at a slower pace than originally expected due to disrupted supply chains and rising commodity prices.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- The latest PMI data show that the manufacturing sector grew robustly in Chinese Taipei in July amidst rising demand and production. The manufacturing sector expanded also in Hong Kong as the pandemic gets under better control.
- The trade-weighted US dollar index picked up by 1.3% in July. Of the key regional currencies, the TWD lost 0.4% against the US\$. Other FX movements were muted.
- Oil and jet fuel prices continued to trend upwards in July, putting extra pressure on airlines' financials. The increase was driven by recovering global economic activity and uncertainty about Opec+ output deal.

Market

Revenue passenger-kilometers (RPKs)

To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Apr-21	May-21	Jun-21
Region (registration basis)				
Asia Pacific	-62.0	-57.5	-59.8	-65.6
World	-65.9	-65.2	-62.9	-60.1
Routes (segment basis)				
China domestic	-30.8	6.8	6.3	-10.8
Asia - Europe	-79.0	-92.3	-92.7	-91.0
Within Asia	-84.1	-97.4	-97.5	-97.4
Asia - Nth America	-80.1	-93.0	-93.0	-91.5
Asia - Middle East	-73.6	-83.3	-83.8	-84.5
Asia - S/w Pacific	-79.4	-98.0	-97.7	-97.6
Asia - Africa	-79.7	-90.5	-91.1	-92.8

Source: IATA Economics. Asia-Pac incl North Asia

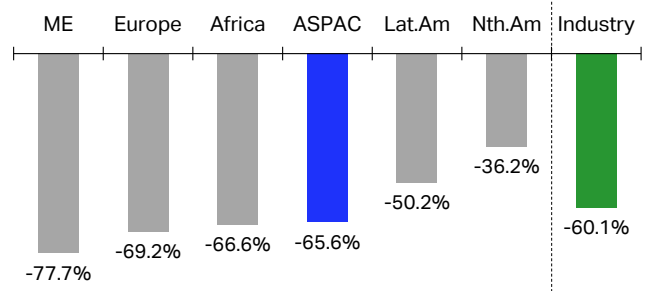
- Slow air travel recovery continued for another month amidst modest improvements in both domestic and international travel. Industry-wide revenue passenger-kilometres (RPKs) fell by 60.1% (vs. June 2019) compared with a 62.9% decline in the previous month.
- Contraction in Asia Pacific RPKs accelerated for the second consecutive month. Passenger volumes fell by 65.6% vs. the pre-crisis levels compared with a 59.8% fall in May. The weakness was largely driven by

deterioration in some of the key domestic markets – notably China – that faced new virus outbreaks and travel restrictions in June.

- International travel of Asia Pacific airlines remained subdued due to elevated travel restrictions that are the strictest amongst all regions. Aggregated international RPKs fell by 94.6% in June 2021 vs. June 2019 – a broadly unchanged contraction from May.

Growth in passenger volumes, by region

RPKs, % change vs. Jun 2019



Source: IATA Economics

Cargo tonne-kilometers (CTKs)

To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Apr-21	May-21	Jun-21
Region (registration basis)				
Asia Pacific	-13.8	2.7	0.0	0.9
World	-8.7	11.5	8.5	9.9
Routes (segment basis)				
Asia - Europe	-10.6	12.5	2.5	5.8
Asia - Nth America	7.6	32.1	31.6	30.3
Within Asia	-19.6	-2.8	-8.1	-3.2
Asia - Middle East	-7.0	20.5	16.3	16.9
Asia - S/w Pacific	-30.4	-37.1	-34.9	-25.3
Asia - Africa	9.0	42.2	34.6	44.1

Source: IATA Economics. Asia-Pacific incl. North Asia

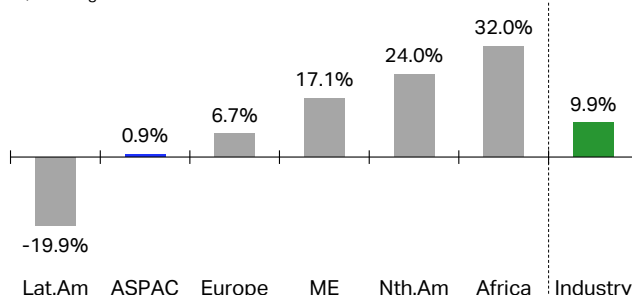
- June 2021 was another month of strong air cargo performance. Industry-wide cargo tonne-kilometres (CTKs) grew 9.9% compared to June 2019 and air cargo drivers point to further growth ahead.
- Carriers based in Asia Pacific recorded a 0.9% increase in cargo volumes in June 2021 vs. the same month in 2019. Even though demand for the goods is still high, the region faces moderate headwinds from

the lack of capacity and manufacturing PMIs that are not as strong as in Europe and North America.

- Amongst the region's key segment based international markets, the smaller Africa-Asia had been the strongest performer, reporting a 44.1% CTK expansion compared with the pre-crisis levels. Asia-Nth.Am routes followed with air cargo volumes up 30.3% vs. June 2019.

Growth in cargo volumes, by region

CTKs, % change vs. Jun 2019



Source: IATA Economics

Industry

Capacity growth and load factors

To aid understanding, we make % comparisons with pre-crisis 2019 period.

ASK/ACTK: %ch vs. the same period in 2019, LF: % of ASK/ACTK		2020	Apr-21	May-21	Jun-21
Passenger					
Asia Pacific	ASK	-54.1	-48.5	-52.4	-56.9
	PLF	67.7	67.7	67.8	65.7
World	ASK	-56.7	-54.7	-54.1	-51.6
	PLF	65.1	63.9	66.1	69.6
Cargo					
Asia Pacific	ACTK	-27.1	-15.1	-17.8	-21.6
	CLF	61.9	62.7	64.6	67.6
World	ACTK	-21.1	-10.6	-11.2	-10.8
	CLF	54.2	58.1	57.7	56.5

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

- Although passenger load factors (PLF) recovered from the last year's record lows, they remained well below the pre-crisis levels in most regions. The industry-wide metric was at 69.6% – ~15ppts lower vs June 2019. At the regional level, the average PLF of Asia Pacific carriers was at 65.7%.
- Cargo load factors (CLF) remained exceptionally high in June. The industry-wide metric was at 56.5%, 10.7ppts above June 2019 levels. Asia Pacific airlines reported the CLF at 67.6% - their maximum for any month of June in the history of our time series (since 1990) and the highest outcome amongst regions.
- Q1 2021 financial results confirmed that the start of the year was weaker than originally expected as new virus spikes paused or reversed air travel recovery in many important markets in Asia Pacific. However, the initial Q2 results indicate that pressure on profitability eased slightly in the region as some domestic markets started to reopen.

Airline operating (EBIT) margins*

% revenues	2019	2020	2020Q4	2021Q1
Asia Pacific	4.7	-27	-30	-31
Industry	5.2	-28	-35	-41

Source: Airline Analyst * constant sample basis, not seasonally adjusted

- Despite stalling passenger demand and rising fuel prices, the global rate of cash burn slowed in Q1 2021 vs. Q4 2020 amid rising bookings for future travel in some markets. However, Asia Pacific airlines did not show significant improvement in cash flow generation vs. Q4 2020.

Airline cash flow*

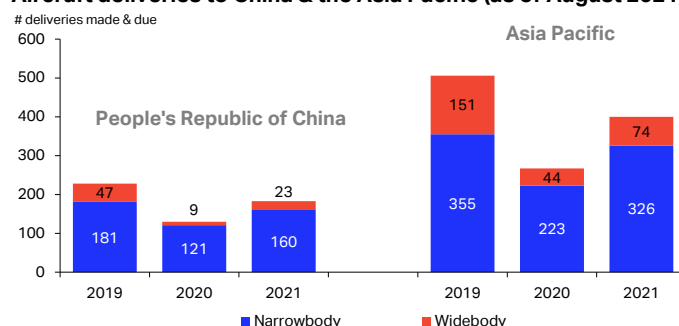
% revenues	Q4 2020		Q1 2021	
	Net cash flow ¹	Free cash flow	Net cash flow ¹	Free cash flow
Asia Pacific	-8	-27	-7	-25
Industry	-43	-56	-10	-26

¹From operating activities

Source: Airline Analyst, *constant sample basis, not seasonally adjusted

- As of August, aircraft deliveries scheduled by Asia Pacific carriers are expected to increase by 50% in 2021 vs. 2020 but will remain 21% below deliveries in 2019. In China, airlines should receive 42% more deliveries vs. last year but 20% fewer than in 2019.

Aircraft deliveries to China & the Asia Pacific (as of August 2021)



Source: Cirium Fleet Analyzer

Note: Asia Pacific includes North Asia