

State of the region: North Asia

December 2019

Economy

GDP growth, selected economies

% change on a yr ago	2018	Q1 2019	Q2 2019	Q3 2019
People's Republic of China	6.6	6.4	6.2	6.0
Chinese Taipei	2.7	1.8	2.4	2.9
Hong Kong (SAR), China	3.0	0.6	0.4	-2.9
Mongolia	6.8	8.6	6.2	4.2
Emerging Asia	6.4	--	--	--
World*	3.2	2.7	2.5	2.5

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Sep-19	Oct-19	Nov-19
US\$ broad index	128.5	130.8	130.2	129.9
Chinese renminbi (CNY)	6.88	7.14	7.04	7.03
Taiwanese dollar (TWD)	30.7	31.0	30.4	30.5
Hong Kong dollar (HKD)	7.83	7.84	7.84	7.83
Mongolian tughrig (MNT)	2640	2668	2690	2716

Source: Datastream

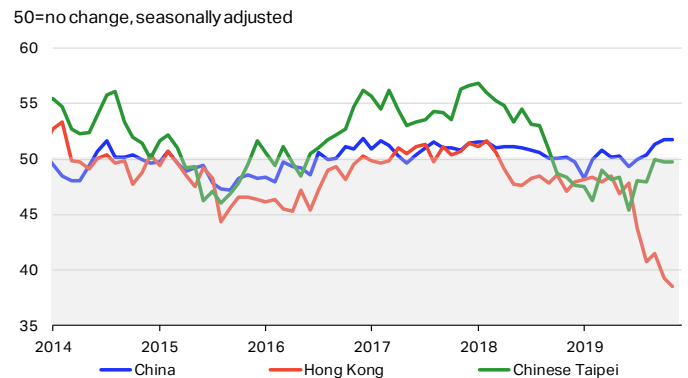
World oil and jet fuel price

US\$/barrel (period ave.)	2018	Sep-19	Oct-19	Nov-19
Crude oil (Brent)	71.7	62.4	59.6	62.7
Jet fuel	86.4	79.8	78.7	78.2

Source: Platts, Datastream (monthly average data)

- Chinese business confidence ticked marginally higher in November, pointing to a stabilization in operating conditions on the back of improving demand.

Business confidence - manufacturing PMIs



Source: Markit

- Ongoing unrest contributed to a further decline in business confidence in Hong Kong, while weaker export outcomes weighed on sentiment in Chinese Taipei.
- The trade weighted US\$ index eased slightly for the second consecutive month, down 0.2%. Of the key regional currencies, the MNT lost 1% against the US\$. Other FX movements were relatively muted this month.
- While the average monthly jet fuel price stabilized in November, the crude oil price picked up a little, ahead of the recent OPEC meeting.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Aug-19	Sep-19	Oct-19
Region (registration basis)				
Asia Pacific	9.3	4.7	4.8	3.6
World	7.3	3.8	3.9	3.4
Routes (segment basis)				
China domestic	12.1	8.9	8.0	5.3
Asia - Europe	7.1	6.0	5.2	6.6
Within Asia	10.5	7.1	8.1	6.6
Asia - Nth America	3.9	0.3	0.8	-0.1
Asia - Middle East	4.4	1.1	2.4	9.9
Asia - S/w Pacific	7.2	6.6	5.7	4.0
Asia - Africa	9.4	3.4	6.2	8.9

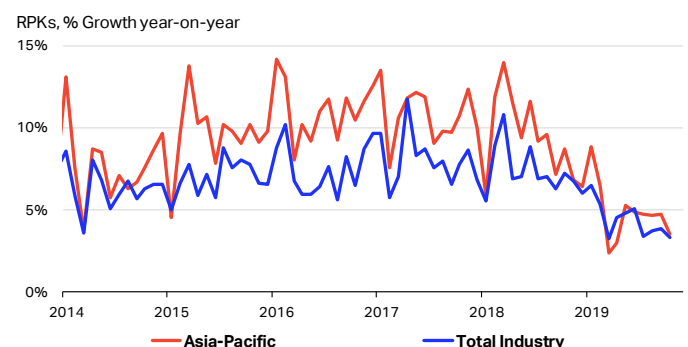
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) grew by 3.4% year-on-year in October – down from 3.9% in September on a weaker performance from domestic markets.
- Asia Pacific carriers flew 3.6% more RPKs compared to the same period a year ago – a slowing from the ~5%yoy pace observed since May. The adverse impacts from the US-China trade war tensions combined with weaker business confidence in some key countries and the extended period of disruption in

Hong Kong have weighed upon air passenger growth in the region in 2019.

- Domestic China RPK growth eased for the 3rd month in a row to 5.3%yoy. While October's outcome partly reflects a stronger outturn a year ago, the modest recent easing in consumer spending is also likely having an impact on domestic passenger demand.
- Amongst the key international routes in the region, RPK growth converged to a solid 6.6%yoy in the larger Asia-Europe and Within Asia markets, although this represented a modest slowdown (1.5ppt) for the latter.

Growth in air passenger volumes



Source: IATA Statistics

Freight tonne kilometers (FTKs)

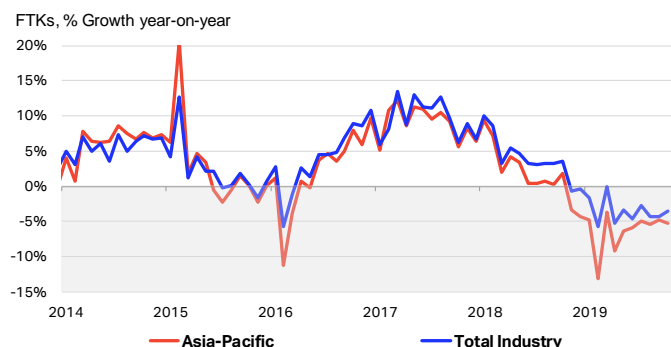
% change on a yr ago	2018	Aug-19	Sep-19	Oct-19
Region (registration basis)				
Asia Pacific	1.6	-5.5	-4.8	-5.3
World	3.7	-4.3	-4.4	-3.5
Routes (segment basis)				
Asia - Europe	1.1	-3.4	-0.8	-1.1
Asia - Nth America	3.7	-2.5	-4.0	-6.5
Within Asia	0.6	-7.5	-5.3	-7.3
Asia - Middle East	4.8	-5.2	-4.4	-3.1
Asia - S/w Pacific	3.0	-8.0	-9.5	-10.2
Asia - Africa	-4.0	17.4	22.6	20.1

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide freight tonne kilometres (FTKs) decreased by 3.5% in October 2019 compared to a year ago. This represents the 12th consecutive month of annual decline. That said, recent monthly outcomes show a stabilization in air freight volumes.
- The speed of annual FTK contraction increased modestly for Asia Pacific carriers compared to Sept (by 0.5ppt). That said, a brighter trade backdrop and robust economic growth in several key regional economies are positive developments looking forward.

- Of the region's key international markets, FTKs contracted for another month by 1.1% in Asia-Europe market and declined further in the Asia-NthAm and Within Asia markets (down 6.5% & 7.3%, respectively).
- As was the case in the previous months, Asia-Africa continued to significantly outperform the other markets (RPKs up 20%yoy) on the back of large-scale foreign investment from Asia to Africa that represent new business and trade opportunities.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago		2018	Aug-19	Sep-19	Oct-19
LF: % of ASK/AFTK					
Passenger					
Asia Pacific	ASK	8.7	5.1	5.6	2.9
	PLF	81.7	84.0	80.2	81.5
World	ASK	6.8	3.5	3.4	2.2
	PLF	82.0	85.6	81.9	82.0
Freight					
Asia Pacific	AFTK	3.5	2.5	2.6	0.6
	FLF	56.0	51.3	54.1	53.9
World	AFTK	5.2	2.4	2.6	2.2
	FLF	49.3	44.2	46.3	47.7

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

- The industry-wide passenger load factor (PLF) reached a new all-time October high as RPKs continued to grow faster than capacity. On the freight side, the load factor (FLF) eased by 2.8ppt vs a year ago, to 47.7%.
- Since capacity growth slowed more than RPKs, the Asia Pacific PLF picked up vs a year ago and marked a new all-time Oct high. By contrast, the FLF recorded a new all-time low for the month.
- The latest Q3 2019 airline financial data point to a modest improvement in industry-wide financial performance on the back of better performance in North America. At the regional level, the EBIT margin

Airline operating (EBIT) margins*

% revenues	2017	2018	2018Q3	2019Q3
Asia Pacific	6.3	4.7	8.0	6.9
Industry	7.5	5.7	12.7	13.2

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

eased to below 7% as softer demand and intense competition in the market put pressure on yields.

- Passenger yields contracted in annual terms across most of the key international routes and in the China domestic market. Asia-Middle East remained the only exception with a robust yield growth at 7.3%yoy.

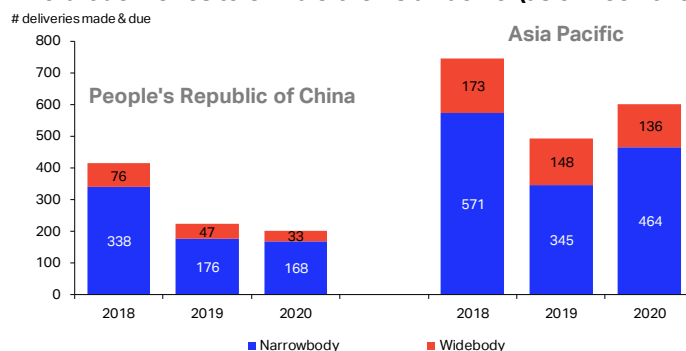
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Aug-19	Sep-19	Oct-19
China domestic	-0.3	-4.9	-9.4	-3.4
Asia - Europe	-1.9	-8.1	-8.6	-7.8
Within Asia	-1.9	-3.6	-6.3	-3.2
Asia - Nth America	-2.7	-1.9	-5.6	-5.7
Asia - Middle East	-1.8	1.9	7.9	7.3
Asia - Sth America	0.7	-0.6	-5.6	-8.6
Asia - Africa	0.8	-4.1	-6.4	-7.2

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

- The latest data point to a modest decline in the number of jet aircraft deliveries scheduled for Chinese airlines in 2020 but an increase in orders for the Asia Pacific carriers as a whole compared to 2019.

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



Source: Ascend

Note: Asia Pacific includes North Asia