



STATE OF THE REGION: NORTH ASIA

DECEMBER 2018

Economy

GDP growth, selected countries

%change on a yr ago	2017	2018Q1	2018Q2	2018Q3
China	6.9	6.8	6.8	6.7
Chinese Taipei	3.1	3.3	3.1	2.2
Hong Kong	3.8	4.6	3.5	2.9
Mongolia	5.2	6.3	6.1	6.6
Emerging Asia	6.5	--	--	--
World*	3.1	3.2	3.2	3.0

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Sep-18	Oct-18	Nov-18
US\$ broad index	120.0	126.0	126.9	128.3
Chinese renminbi (CNY)	6.51	6.87	6.98	6.96
Taiwanese dollar (TWD)	29.7	30.5	31.0	30.8
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2429	2545	2566	2613

Source: Datastream, XE

World oil and jet fuel price

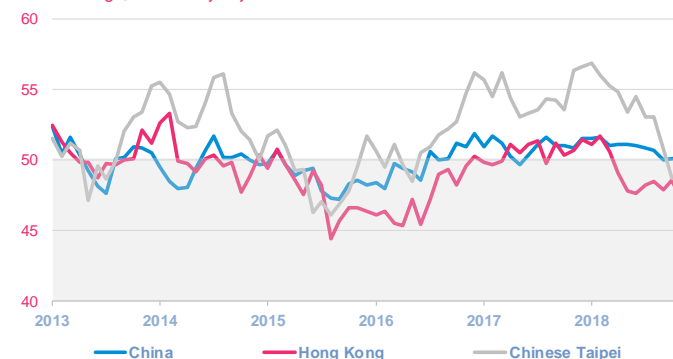
US\$/barrel (period ave.)	2017	Sep-18	Oct-18	Nov-18
Crude oil (Brent)	54.2	78.9	81.0	64.8
Jet fuel	65.6	91.9	94.4	81.7

Source: Platts, EIA Monthly average data

- ➔ Business confidence in Hong Kong ticked down this month to levels last seen in mid-2016 or so, in part due to declines in new orders from China and lower output.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- ➔ Sentiment in Chinese Taipei continues to trend downwards for the 5th consecutive month. In China, confidence remained largely unchanged, although trade war tensions remain a key concern for businesses.
- ➔ On a trade-weighted basis, the US\$ rose by 1.1% in Nov, and is up 9% since Jan. Regional currency movements were in general muted this month with the CNY, TWD & HKD gaining ~0.3% vs the US\$. The MNT was the only exception, losing 1.8% against the US\$.
- ➔ Brent crude oil & jet fuel prices both fell sharply in November, by ~ 20% and 13.5%, respectively, following increased concerns of oversupply.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Aug-18	Sep-18	Oct-18
Region (registration basis)				
Asia Pacific	10.8	9.1	6.5	7.6
World	8.0	6.3	5.5	6.3
Routes (segment basis)				
China domestic	13.4	14.3	9.0	12.2
Asia - Europe	10.5	9.2	7.1	7.5
Within Asia	11.4	7.6	6.0	6.1
Asia - Nth America	7.2	2.5	2.0	1.7
Asia - Middle East	7.0	3.6	3.5	5.9
Asia - S/w Pacific	10.1	11.1	6.0	7.4
Asia - Africa	3.7	10.6	9.7	5.8

Source: IATA Statistics Asia-Pac incl North Asia

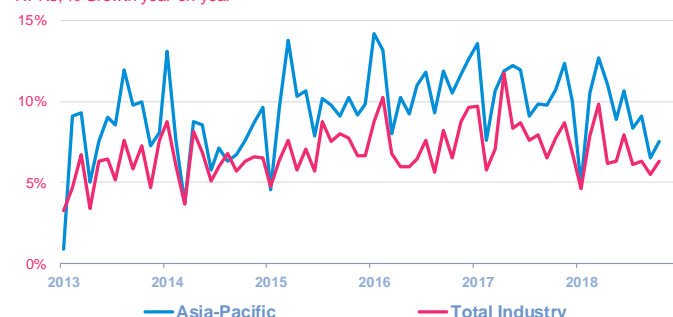
- ➔ Annual growth in industry-wide RPKs recovered to 6.3% in Oct, up from an eight-month low of 5.5% in Sep. That said, the upward passenger demand trend has softened a little over the past six months.
- ➔ RPK growth for the Asia Pacific carriers recovered in Oct, rising by 7.6%yoy. In doing so, the region became the fastest growing in terms of pax volumes this month.
- ➔ The pace of China domestic RPK growth bounced back

from a modest and short-lived slowdown in Sep, to a solid 12.2%yoy pace. As is the case globally, the upward trend in passenger demand in the China domestic market has slowed over the past half year.

- ➔ Of the region's main international markets, Asia-Europe and Asia-S/w Pacific are the strongest performers currently, trending upwards at ~7.5%yoy pace. In the smaller Asia-Africa, growth softened further to 5.8%yoy, indicating that the period of strong double-digit growth might have come to an end.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Aug-18	Sep-18	Oct-18
Region (registration basis)				
Asia Pacific	9.0	0.2	0.4	1.9
World	9.7	2.8	2.5	3.1
Routes (segment basis)				
Asia - Europe	12.2	1.9	0.2	2.0
Asia - Nth America	10.1	3.2	3.2	4.8
Within Asia	8.6	-1.0	-5.1	1.7
Asia - Middle East	8.1	3.3	5.7	7.1
Asia - S/w Pacific	10.7	6.5	5.7	3.1
Asia - Africa	57.8	-9.4	-11.8	-3.6

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Annual industry-wide growth in FTKs recovered to 3.1% in Oct, reflecting traditionally stronger demand for air freight in Q4. That said, the growth rate remains markedly slower vs last year, which is consistent with the typical pattern seen after inventory restocking cycles.
- ➔ At the regional level, year-on-year FTKs flown by AsiaPac carriers rose to 1.9%, from 0.4% seen in Sep. That said, the region's FTK growth rate remains ~1pp below the industry-wide average.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK	2017	Aug-18	Sep-18	Oct-18
Passenger				
Asia Pacific ASK	9.0	7.1	6.1	7.0
Asia Pacific PLF	81.0	84.2	80.7	80.8
World ASK	6.6	5.4	5.9	6.3
World PLF	81.5	85.3	81.4	81.1
Freight				
Asia Pacific AFTK	5.6	3.5	1.2	4.2
Asia Pacific FLF	57.2	54.9	57.7	56.9
World AFTK	5.0	5.4	4.1	5.4
World FLF	49.9	46.9	49.5	50.4

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 PLF eased to 81.1% in Oct, the lowest level since May. In contrast, the FLF rose for the second month in a row to 50.4%, up from 49.5% in Sep.
- ➔ The PLF for the AsiaPac airlines remains largely unchanged from Sep at 80.8%. On the freight side, the FLF ticked down a little this month to 56.9%.
- ➔ The latest Q3 financial data confirm a decline in both industry & regional performance vs a year ago. The industry-wide EBIT margin dropped to 11.5% in Q3 from 15.1% last year. As for AsiaPac carriers, the Q3 margin showed a moderation to 6.3% vs 11.3% in Q3 2017.

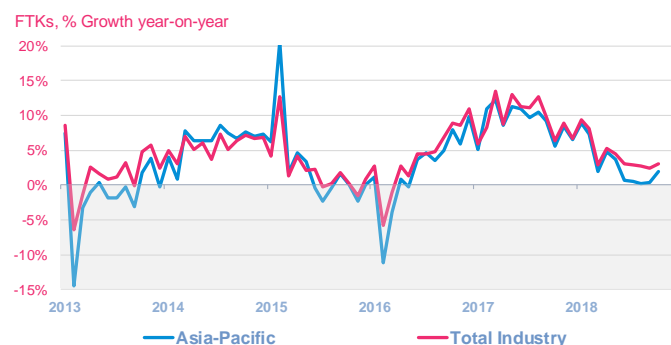
Airline operating (EBIT) margins*

%revenues	2016	2017	2017Q3	2018Q3
Asia Pacific	7.4	5.5	11.3	6.3
Industry	8.5	7.5	15.1	11.5

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

- ➔ Across the region's larger international markets, all recorded a positive year-on-year growth rate in Oct, with Asia-Middle East being the strongest performer, growing at a solid 7.1%yoy pace, followed by Asia-NthAm and Asia S/w Pacific with 4.8% & 3.1% respective growth.
- ➔ Of the smaller international freight markets, freight volumes in Asia-Africa continue to be lower than a year ago by 3.6%. That said, the FTK decline is an improvement compared to the previous two months.

Growth in air freight volumes



Source: IATA Statistics

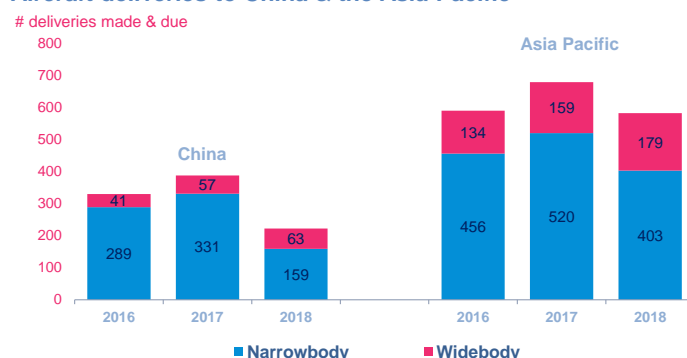
- ➔ Pax yields across the region's key markets generally declined compared to a year ago. In particular, yields in the China domestic market fell for the first time this year, down -2% vs a year ago.
- ➔ Yield growth remained negative in the two larger international markets – Asia-Europe (-1.0%) & Within Asia (4.5%). One of the two exceptions that have seen positive annual growth this month was the important Asia-NthAm market with yields up 4.4%yoy.

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

%change on a yr ago	2017	Aug-18	Sep-18	Oct-18
China domestic	-5.3	1.5	1.7	-2.0
Asia - Europe	1.9	0.1	-2.7	-1.0
Within Asia	-5.6	-2.1	-3.3	-4.5
Asia - Nth America	-3.2	3.9	4.1	4.4
Asia - Middle East	-3.5	-0.1	-4.9	-1.9
Asia - Sth America	-4.2	-0.6	-3.0	-3.0
Asia - Africa	-0.1	6.9	1.7	0.8

Source: IATA PaxIS Note: historical data may be subject to revision

Aircraft deliveries to China & the Asia Pacific



Source: Ascend

Note: Asia-Pac incl North Asia