

State of the region: North Asia

December 2020

Economy

GDP growth, selected economies

| % change on a yr ago | 2019 | Q1 2020 | Q2 2020 | Q3 2020 |
|----------------------------|------------|-------------|-------------|-------------|
| People's Republic of China | 6.1 | -6.8 | 3.2 | 4.9 |
| Chinese Taipei | 3.0 | 2.8 | 0.6 | 3.8 |
| Hong Kong (SAR), China | -1.2 | -9.1 | -9.0 | -3.5 |
| Mongolia | 5.0 | -10.9 | -8.8 | -2.7 |
| Emerging Asia | 5.5 | -- | -- | -- |
| World* | 2.5 | -1.6 | -9.0 | -2.9 |

Source: Datastream * Market exchange rate basis

Exchange rates

| end of period, # per US\$ | 2019 | Sep-20 | Oct-20 | Nov-20 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 114.7 | 117.3 | 116.5 | 113.6 |
| Chinese renminbi (CNY) | 6.96 | 6.79 | 6.69 | 6.58 |
| Taiwanese dollar (TWD) | 30.0 | 29.0 | 28.6 | 28.5 |
| Hong Kong dollar (HKD) | 7.79 | 7.75 | 7.75 | 7.75 |
| Mongolian tughrick (MNT) | 2740 | 2851 | 2845 | 2861 |

Source: Datastream

World oil and jet fuel price

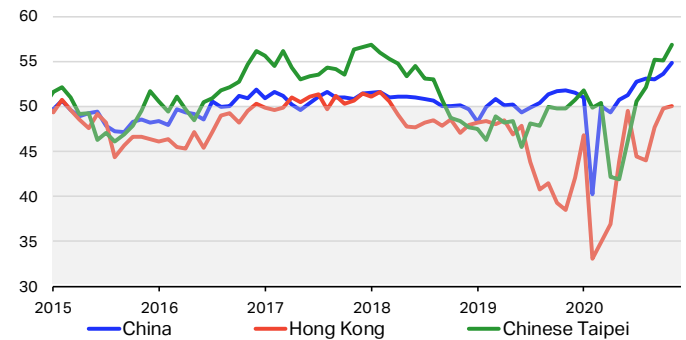
| US\$/barrel (period ave.) | 2019 | Sep-20 | Oct-20 | Nov-20 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 64.2 | 41.9 | 41.6 | 44.1 |
| Jet fuel | 79.6 | 41.1 | 43.5 | 47.7 |

Source: Platts, Datastream (monthly average data)

- Manufacturing PMI in China reached the highest level since late-2010, confirming a swift rebound of the country's operating conditions from the crisis.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Business sentiment was elevated also in Chinese Taipei, as recovery in global economic activity stimulated demand for the country's products. In Hong Kong, operating conditions stabilized, however there is a risk that they will worsen amidst the new resurgence of the virus.
- The trade weighted US dollar index fell by 2.5% in November amidst investors' hopes that vaccines will accelerate the global economic recovery. Of the regional currencies, the CNY gained almost 2% vs. the US\$, reflecting robust economic recovery.
- Brent Crude oil and jet fuel price also reflected positive news flow about the virus vaccine, rising by 2% and 4%, respectively versus October.

Market

Revenue passenger-kilometers (RPKs)

| % change on a yr ago | 2019 | Aug-20 | Sep-20 | Oct-20 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 4.7 | -69.1 | -63.2 | -61.6 |
| World | 4.1 | -74.8 | -72.2 | -70.6 |
| Routes (segment basis) | | | | |
| China domestic | 7.9 | -18.8 | -2.8 | -1.4 |
| Asia - Europe | 6.7 | -94.5 | -92.9 | -92.8 |
| Within Asia | 5.3 | -98.4 | -98.2 | -98.2 |
| Asia - Nth America | 2.4 | -93.5 | -93.7 | -93.7 |
| Asia - Middle East | 4.2 | -91.4 | -88.9 | -86.6 |
| Asia - S/w Pacific | 6.0 | -97.4 | -97.5 | -97.6 |
| Asia - Africa | 3.5 | -94.7 | -93.5 | -93.1 |

Source: IATA Economics. Asia-Pac incl North Asia

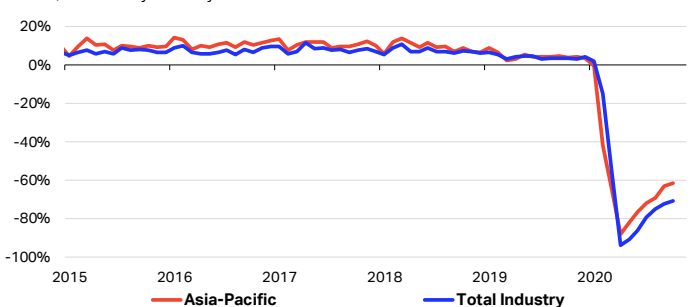
- Industry-wide revenue passenger-kilometres (RPKs) fell by 70.6% year-on-year in October, a modest improvement from the 72.2% decline in September. As in the previous months, the gain has been driven by domestic markets.
- Asia Pacific airlines registered little improvement in passenger traffic vs. the previous month, reporting

RPKs down almost 62%yoy (-63%yoy in Sep).

- There was almost no uptick in international RPKs since travel restrictions remained in place. All cross-border routes contracted by around 90%yoy.
- Some of the domestic markets fared better, including China where RPKs hovered just below levels of a year ago (-1.4%). Recovering economy, low fares and 'fly-at-will' deals have boosted demand.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Economics

Cargo tonne-kilometers (CTKs)

| % change on a yr ago | 2019 | Aug-20 | Sep-20 | Oct-20 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | -5.6 | -18.4 | -15.9 | -12.8 |
| World | -3.2 | -12.0 | -7.8 | -6.2 |
| Routes (segment basis) | | | | |
| Asia - Europe | -1.5 | -18.5 | -17.3 | -15.2 |
| Asia - Nth America | -3.7 | 3.3 | 3.8 | 5.5 |
| Within Asia | -7.7 | -26.8 | -22.8 | -21.6 |
| Asia - Middle East | -2.3 | -5.7 | 0.2 | 3.4 |
| Asia - S/w Pacific | -6.1 | -43.5 | -43.7 | -44.0 |
| Asia - Africa | 12.6 | 18.2 | 23.6 | 4.2 |

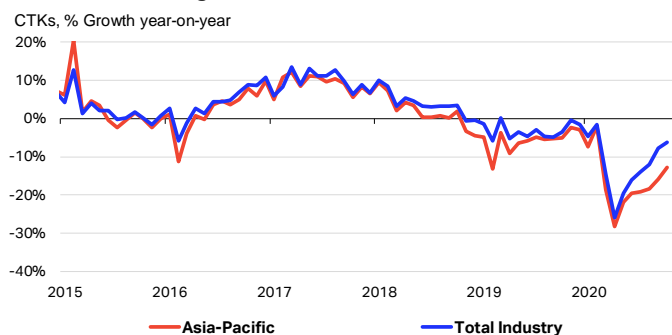
Source: IATA Economics. Asia-Pac incl North Asia

- Industry-wide cargo tonne-kilometres (CTKs) fell by 6.2% year-on-year versus a 7.8% fall in the previous month. The pace of improvement softened modestly compared with September.
- Asia Pacific's air cargo volumes picked up despite Golden Week holidays (a typically weak period for air cargo business). The recovery in volumes observed

over the past two months has been positively impacted by rising available capacity in the market.

- Of the region's key markets, Asia-Nth.Am routes continued to drive the rebound in the region's int'l CTKs (up 5.5%yoy in Oct). Growth slowed sharply on Asia-Africa routes although for now it's too early to determine whether it's a new trend or just outsized volatility typical for this small market.

Growth in air cargo volumes



Industry

Capacity growth and load factors

| ASK/ACTK: %ch on a yr ago, | | 2019 | Aug-20 | Sep-20 | Oct-20 |
|----------------------------|------|------|--------|--------|--------|
| LF: % of ASK/ACTK | | | | | |
| Passenger | | | | | |
| Asia Pacific | ASK | 4.4 | -60.2 | -57.2 | -54.5 |
| | PLF | 81.9 | 65.2 | 69.1 | 68.7 |
| World | ASK | 3.4 | -63.4 | -62.3 | -59.9 |
| | PLF | 82.6 | 59.0 | 60.5 | 60.2 |
| Cargo | | | | | |
| Asia Pacific | ACTK | 0.9 | -31.9 | -29.2 | -23.9 |
| | CLF | 52.3 | 61.4 | 63.9 | 61.7 |
| World | ACTK | 2.1 | -29.0 | -25.5 | -22.6 |
| | CLF | 46.8 | 54.8 | 57.2 | 57.6 |

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

- Seat capacity continued to recover faster than RPKs. As a result, the industry-wide passenger load factor reached a new record-low for October (60%). The PLF of Asia Pacific carriers was at 69% in total - the highest outcome of all regions.
- For freight, load factors remained at elevated levels amidst the ongoing capacity shortage that resulted from grounding of passenger aircraft. Asia Pacific airlines reported the CLF was up 8ppts vs. year ago.
- Our latest sample of Q3 2020 results confirms that negative impact of the pandemic on airline financials persists. Airlines in all regions reported another quarter of sharp losses since the recovery in air travel demand

Airline operating (EBIT) margins*

| % revenues | 2018 | 2019 | 2019Q3 | 2020Q3 |
|--------------|------|------|--------|--------|
| Asia Pacific | 4.7 | 3.7 | 6.3 | -41 |
| Industry | 5.7 | 5.2 | 12.7 | -61 |

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

was limited. Looking ahead, air travel demand and revenues will likely pick up once the vaccines become widely available. Until then however, airlines will continue to lose money unless testing replaces quarantine requirements.

- Note that the passenger yield data should be interpreted with caution due to the small number of tickets being sold amidst the pandemic crisis.

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

| % change on a yr ago | 2019 | Aug-20 | Sep-20 | Oct-20 |
|----------------------|------|--------|--------|--------|
| China domestic | -6.1 | -32.3 | -6.4 | -8.1 |
| Asia - Europe | -7.7 | -7.3 | -3.8 | 5.6 |
| Within Asia | -4.5 | -21.1 | -4.8 | -6.3 |
| Asia - Nth America | -2.6 | -5.0 | 1.2 | 0.5 |
| Asia - Middle East | 7.7 | 28.4 | 47.1 | 57.1 |
| Asia - Sth America | -7.8 | 11.6 | 8.8 | 5.1 |
| Asia - Africa | -5.8 | 61.9 | 83.8 | 104.7 |

Source: DDS Note: historical data may be subject to revision

- The data for December indicate a 50% fall in the number of jet aircraft deliveries scheduled for Asia Pacific airlines and a 45% decline for Chinese carriers in 2020 compared with 2019.

Aircraft deliveries to China & the Asia Pacific (as of December 2020)

