

State of the region: North Asia

February 2020

Economy

GDP growth, selected economies

% change on a yr ago	2018	Q2 2019	Q3 2019	Q4 2019
People's Republic of China	6.8	6.2	6.0	6.0
Chinese Taipei	2.7	2.4	2.7	3.8
Hong Kong (SAR), China	2.9	0.1	-3.2	-2.9
Mongolia	7.0	6.3	4.2	1.8
Emerging Asia	6.4	--	--	--
World*	3.2	2.6	2.5	2.5

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2019	Nov-19	Dec-19	Jan-20
US\$ broad index	114.7	117.1	114.7	115.8
Chinese renminbi (CNY)	6.96	7.03	6.96	6.94
Taiwanese dollar (TWD)	30.0	30.5	30.0	30.2
Hong Kong dollar (HKD)	7.79	7.83	7.79	7.76
Mongolian tugrik (MNT)	2740	2716	2740	2748

Source: Datastream

World oil and jet fuel price

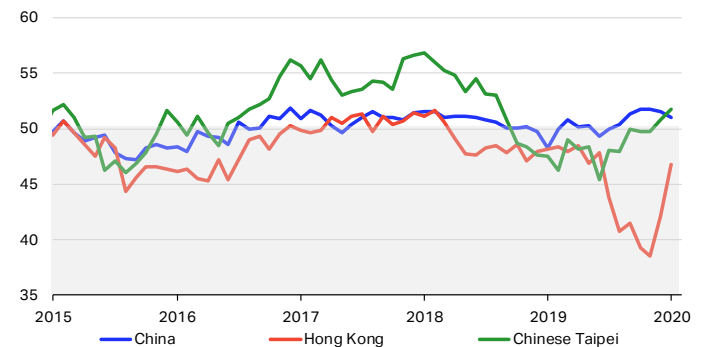
US\$/barrel (period ave.)	2019	Nov-19	Dec-19	Jan-20
Crude oil (Brent)	64.2	62.7	65.3	63.9
Jet fuel	79.6	78.2	80.1	76.2

Source: Platts, Datastream (monthly average data)

- Business confidence in China eased further, indicating a softer pace of recovery in the manufacturing sector. The PMI fall will likely continue in the near-term amid supply chain disruptions from the coronavirus.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Hong Kong's business sentiment rose sharply in Jan but remained in the territory associated with deterioration in manufacturing sector amid political protests and global trade uncertainty. Sentiment improved ahead of the virus outbreak also in Chinese Taipei due to the US-China trade deal progress.
- The US\$ broad index ended the month up ~1%. The key regional currency movements were muted in January.
- Following the uptick in December, the jet fuel and crude oil price declined again last month due to the concerns about the impact of the coronavirus outbreak on global oil demand.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2019	Oct-19	Nov-19	Dec-19
Region (registration basis)				
Asia Pacific	4.8	4.0	4.2	3.5
World	4.2	3.4	3.3	4.5
Routes (segment basis)				
China domestic	7.8	5.9	4.4	3.7
Asia - Europe	6.6	6.3	6.2	5.1
Within Asia	6.4	5.6	6.7	5.4
Asia - Nth America	2.0	-0.1	0.9	6.0
Asia - Middle East	3.6	9.8	7.5	5.7
Asia - S/w Pacific	6.0	4.0	5.8	6.0
Asia - Africa	5.0	8.9	10.7	7.9

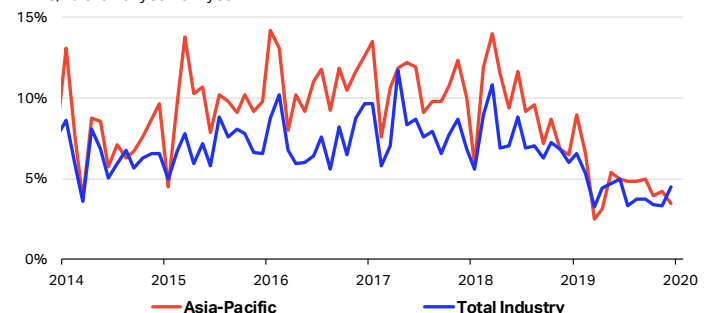
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) expanded by 4.2% in 2019 as a whole, down from 7.3% in the previous year amidst slower economic growth and weaker international trade.
- Asia Pacific carriers saw RPKs up by 4.8% in 2019 – almost half the pace recorded in 2018 (9.3%). The sharp slowdown reflected the adverse impact of the US-China trade war on business confidence and economic activity in the region.

- Chinese airlines saw domestic passenger traffic expand by 7.8% in 2019 as a whole. Although this represents the slowest pace in the past ten years, it was still the fastest growth of all domestic markets that we regularly track.
- The performance was mixed across the other key regional markets. Both Asia-Europe and Within Asia markets expanded by ~6.5% in 2019. This represents still a solid outcome for the former but more than 5ppt slowdown for the latter.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2019	Oct-19	Nov-19	Dec-19
Region (registration basis)				
Asia Pacific	-5.7	-5.4	-2.9	-3.5
World	-3.3	-3.7	-1.1	-2.7
Routes (segment basis)				
Asia - Europe	-1.9	-1.1	1.9	-1.5
Asia - Nth America	-3.7	-2.6	-1.0	-2.3
Within Asia	-7.4	-7.3	-2.4	-0.2
Asia - Middle East	-2.6	-2.6	0.6	1.2
Asia - S/w Pacific	-5.2	-10.2	-5.7	-1.3
Asia - Africa	12.4	20.1	38.9	17.0

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide freight tonne kilometres (FTKs) contracted by 3.3% in 2019. This is the worst performance since the Global Financial Crisis and could be largely attributed to global weakness in trade.
- As one of the world's main manufacturing and distribution hubs, Asia Pacific region was hit particularly hard by international trade tensions and global economic slowdown. This was reflected in sharp decline in region's FTKs in 2019 (-5.7%).

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2019	Oct-19	Nov-19	Dec-19
LF: % of ASK/AFTK					
Passenger					
Asia Pacific	ASK	4.5	3.2	2.9	2.5
	PLF	81.9	81.5	81.4	81.6
World	ASK	3.4	2.2	1.8	2.1
	PLF	82.6	82.0	81.1	82.3
Freight					
Asia Pacific	AFTK	1.1	1.2	1.8	2.8
	FLF	52.2	53.5	54.3	51.9
World	AFTK	2.1	2.4	2.6	2.8
	FLF	46.7	47.5	49.8	46.7

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

- Industry-wide seat capacity (ASKs) expanded by 3.4% in 2019 – about 1ppt slower pace than that of RPKs. As a result, the industry passenger load factor (PLF) reached a record-high 82.6% last year.
- For freight, capacity (AFTKs) rose by 2.1% against contracting demand. This has driven 2019 freight load factor down by 2.6ppt compared to the previous year.
- At the regional level, Asia Pacific carriers posted their highest annual PLF in the history of our time series (81.9%). However, they performed less strongly on the freight side with FLF down 3.8ppt vs 2018.
- The initial Q4 financial data indicate a modestly higher industry-wide EBIT margin compared to the same

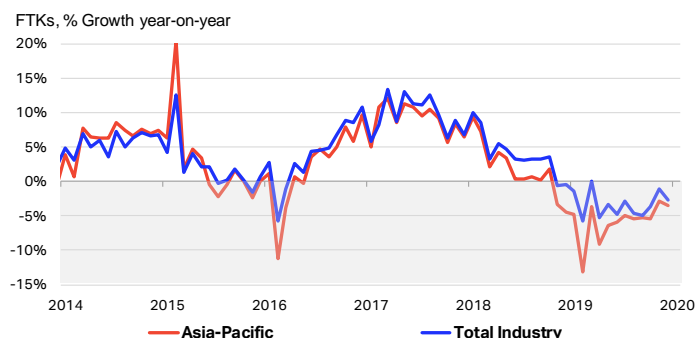
Airline operating (EBIT) margins*

% revenues	2018	2019E	2018Q4	2019Q4
Asia Pacific	4.7	3.5	10.0	8.8
Industry	5.7	5.1	8.3	9.0

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

- Of the main air freight markets for the region, only the smaller Asia-Africa expanded last year (up 12.5%), benefitting from investment flows from Asia to Africa.
- Of the remaining key markets, Within Asia underperformed the most in 2019 (-7.4%) while the larger Asia-Eur market saw the slowest contraction (-1.9%) and was showing signs of recovery in late-2019.

Growth in air freight volumes



Source: IATA Statistics

period a year ago. At the regional level, margins fell on average, partly due to weaker passenger demand.

- Passenger yields (in US\$, excluding surcharges and ancillaries) declined in 2019 across the majority of the key international and domestic markets in the region. The decline was most significant on Asia-Europe and Asia-SthAm routes (down 7.7-7.8%).

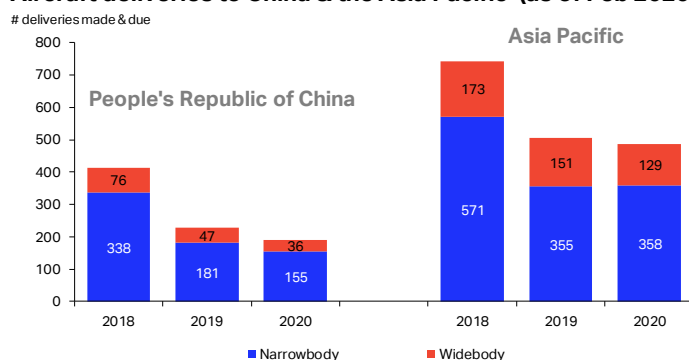
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Oct-19	Nov-19	Dec-19
China domestic	-6.2	-3.3	3.4	0.1
Asia - Europe	-7.7	-7.6	-6.6	-6.6
Within Asia	-4.5	-2.9	-1.9	-2.7
Asia - Nth America	-2.6	-5.3	-1.2	-4.5
Asia - Middle East	7.7	6.8	5.7	5.3
Asia - Sth America	-7.8	-8.8	-6.8	-4.0
Asia - Africa	-5.8	-7.1	-5.1	-4.7

Source: DDS 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 and the Asia Pacific carriers as a whole in 2020 compared to 2019.

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



Source: Ascend

Note: Asia Pacific includes North Asia