STATE OF THE REGION: NORTH ASIA

JANUARY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2014	2015Q1	2015Q2	2015Q3
China	7.0	7.0	7.0	6.9
Chinese Taipei	3.7	4.0	0.6	-0.6
Hong Kong	2.5	2.4	2.8	2.3
Mongolia	7.8†	4.4	3.0	--
Emerging Asia	6.8	--	--	--
World*	**2.7**	**2.6**	**2.7**	**2.5**

Source: Datastream   * Market exchange rate basis   † Estimate

Exchange rates

end of period, # per US$	2014	Oct-15	Nov-15	Dec-15
US$ broad index	111.3	119.3	121.1	122.4
Chinese renminbi (CNY)	6.21	6.32	6.40	6.49
Taiwanese dollar (TWD)	31.6	32.5	32.6	32.9
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tughrik (MNT)	1887	1988	1990	1993

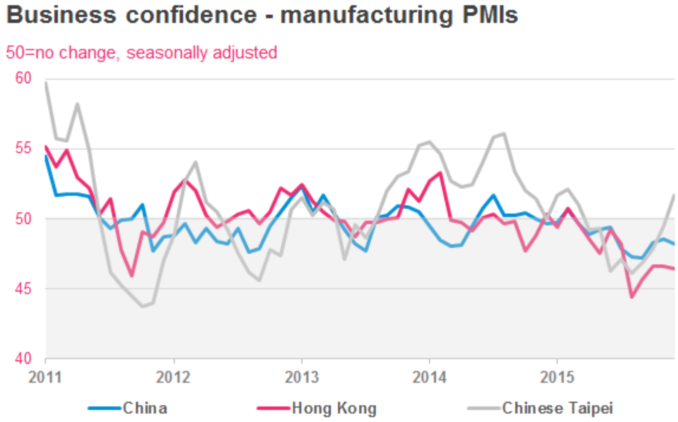
Source: Datastream, XE

World oil and jet fuel price

US$/barrel	2014	Oct-15	Nov-15	Dec-15
Crude oil (Brent)	99.0	48.4	44.3	38.0
Jet fuel	113.3	58.4	55.7	45.4

Source: Platts, EIA

- Business confidence in Chinese Taipei surged in Dec, ending 2015 at levels not seen for almost a year. The same uplift in was not shared in either mainland China or Hong Kong, where sentiment ended the year with a slight decline.



Source: Markit

- The softness in the confidence data highlight the degree of concern regarding the economic outlooks in the important regional economies of China & Hong Kong.
- The US$ rose 1.1% in Dec, finishing the year up an even 10%yoy. Regionally, the CNY eased a further 1.5% in the month vs the USD, while the TWD lost 1.0%. Over the course of the year, the MNT fell 5.6%, the CNY 4.6% & the TWD 4.2% against the USD.
- World oil & jet fuel prices fell sharply in Dec, down 16-18%mom & around 40%yoy. Concerns of oversupply & softer demand both contributed to the latest monthly decline which left crude & jet fuel prices below the 2008/09 crisis-related lows.

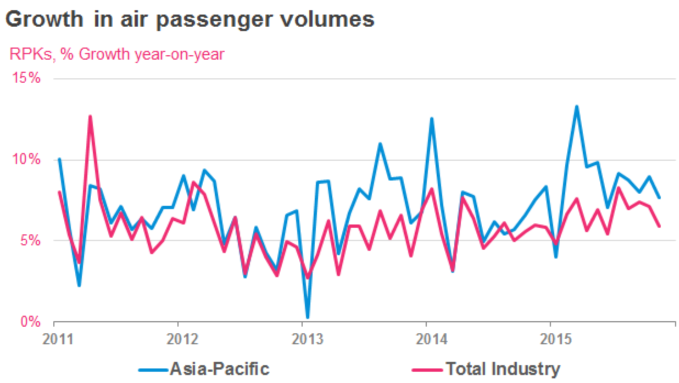
Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2014	Sep-15	Oct-15	Nov-15
Region (registration basis)				
Asia Pacific	6.9	8.0	9.0	7.7
World	5.7	7.4	7.1	5.9
Routes (segment basis)				
China domestic	11.0	11.3	11.5	8.4
Asia - Europe	2.6	5.6	6.9	1.8
Within Asia	5.1	6.2	4.7	3.7
Asia - Nth America	4.9	5.4	8.2	8.3
Asia - Middle East	9.1	8.1	7.8	7.9
Asia - S/w Pacific	2.1	6.6	7.2	6.7
Asia - Africa	1.2	1.9	4.8	14.4

Source: IATA Statistics   NB Asia-Pac incl North Asia

- The RPKs of Asia-Pac airlines eased back somewhat in Nov, to (a still robust) 7.7%yoy. Even so, the region retained its growth gap above the global industry average, which also moderated in Nov, to 5.9%yoy.
- Temporary disruptions to traffic (both pax & freight) in Europe – incl. the Lufthansa strike – is partly responsible for the easing in the aggregate growth rates this month – notably for traffic on routes between Asia & Europe where growth dipped from 7% to 1.8%yoy.
- Pax traffic between Asia & both NthAm & the Middle East held up, at ~8%yoy. Within Asia traffic eased a little, to just under 4%yoy, continuing the trend of recent months, & reflecting, in part, signs of slowing economic activity in a number of key countries.
- RPK growth in the China domestic market also eased, but remains a healthy 8.4% higher in yoy terms.



Source: IATA Statistics

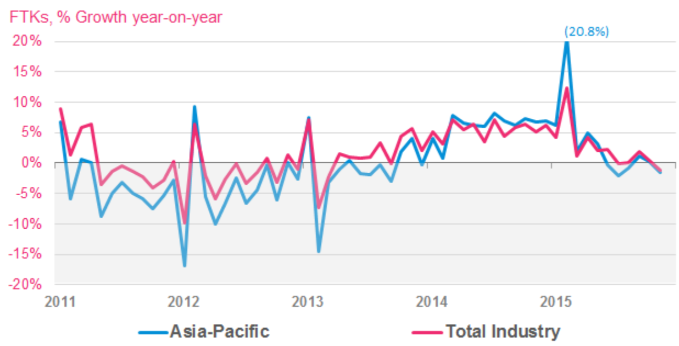
Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Sep-15	Oct-15	Nov-15
Region (registration basis)				
Asia Pacific	6.3	1.2	0.2	-1.5
World	5.5	1.9	0.4	-1.2
Routes (segment basis)				
China domestic	3.5	4.2	-2.0	1.4
Asia - Europe	-0.6	-3.0	-3.5	-5.5
Asia - Nth America	9.9	-0.2	-1.8	-3.6
Within Asia	4.5	1.7	1.4	-4.3
Asia - Middle East	10.2	3.0	5.9	0.8
Asia - S/w Pacific	1.7	14.2	8.8	5.1
Asia - Africa	8.8	-9.3	-5.5	-4.6

Source: IATA Statistics NB Asia-Pac incl North Asia

- FTKs for the Asia-Pac carriers are now 1.5% lower than at the same time a year ago. This decline broadly matches the challenges of the overall industry where FTKs are down 1.2%yoy.
- At the segment level, yoy growth rates generally eased further in the month. While the disruptions in Europe noted previously contributed to further moderation in freight volumes for Asia-Europe (now down 5.5%yoy), the broader malaise for the air cargo segment overall remains in play.
- FTKs for Asia-NthAm are now down 3.6%yoy and Within Asia is down 4.3%. Asia-Middle East slowed sharply in Nov, to just 0.8%yoy (from 5.9%) & developments in this market will bear watching in coming months.
- China domestic FTKs bounced back to positive territory in Nov, now up a modest 1.4%in yoy terms.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2014	Sep-15	Oct-15	Nov-15
Passenger					
Asia Pacific	ASK	7.4	6.4	6.5	5.9
	PLF	*77.2*	*78.2*	*78.6*	*77.7*
World	ASK	5.5	6.5	5.4	4.2
	PLF	*79.6*	*80.9*	*80.4*	*78.0*
Freight					
Asia Pacific	AFTK	7.4	4.6	5.2	3.2
	FLF	*55.6*	*53.6*	*54.1*	*56.4*
World	AFTK	4.4	7.0	6.3	4.5
	FLF	*45.8*	*43.2*	*44.5*	*46.8*

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

- Asia-Pac airlines increased pax capacity by a robust 5.9% over the year to Nov, solidly above the industry rate of 4.2%. The pax load factors are broadly similar at 77.7% & 78.0% in Nov.
- Regional freight capacity is a moderate 3.2% higher than last year, but sits below the industry rate of 4.5%. However, the Asia-Pac freight load factor remains ~10pp above the industry average.
- The latest Q3 EBIT margin for Asia-Pac carriers is solid, at 6.0%, but this is lower than both the level of a year ago (6.5%) & the overall industry outcome of 14.2%.

Airline EBIT margins*

%revenues	2013	2014	2014Q3	2015Q3
Asia Pacific	2.3	2.8	6.5	6.0
Industry	4.1	5.2	10.5	14.2

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

- Pax yields on key routes continue to show widespread – & often double-digit – yoy declines. These declines, in part, reflect the translation effect of the appreciation of the US$ over the past year.

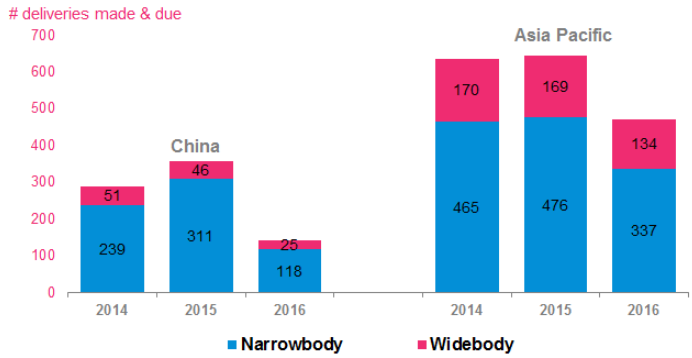
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2014	Sep-15	Oct-15	Nov-15
China domestic	-2.6	4.0	-0.5	-0.8
Asia - Europe	-8.3	-19.6	-16.9	-16.0
Within Asia	-5.9	-9.9	-8.4	-8.7
Asia - Nth America	-10.0	-17.8	-15.7	-13.0
Asia - Middle East	-4.8	-7.8	-9.2	-7.1
Asia - Sth America	-7.2	-15.6	-15.6	-14.5
Asia - Africa	-8.7	-15.2	-15.7	-14.5

Source: IATA PaxIS

- The current aircraft deliveries schedule points to a moderation in the number of aircraft deliveries to both China & the broader Asia-Pac region in 2016 compared with 2015. The decline reflects a combination of fewer wide & narrowbody deliveries.

Aircraft deliveries to China & the Asia Pacific (latest data)



Source: Ascend

Asia-Pac incl North Asia