



STATE OF THE REGION: NORTH ASIA

JANUARY 2018

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q1	2017Q2	2017Q3
China	6.7	6.9	6.9	6.9
Chinese Taipei	1.4	2.4	2.4	3.1
Hong Kong	2.0	4.3	3.9	3.6
Mongolia	1.4	4.1	6.0	6.5
Emerging Asia	6.4	--	--	--
World*	2.3	2.6	2.8	2.8

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Oct-17	Nov-17	Dec-17
US\$ broad index	127.7	120.0	120.3	120.0
Chinese renminbi (CNY)	6.96	6.64	6.61	6.51
Taiwanese dollar (TWD)	32.3	30.1	30.0	29.7
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2455	2444	2429

Source: Datastream, XE

World oil and jet fuel price

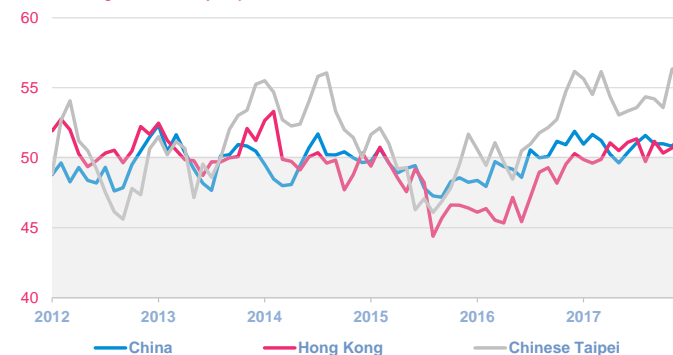
US\$/barrel	2016	Oct-17	Nov-17	Dec-17
Crude oil (Brent)	52.4	57.5	62.7	64.4
Jet fuel	64.0	69.7	73.9	76.3

Source: Platts, EIA Monthly average data

- Business confidence in both China & Hong Kong ended 2017 with a continuation of the broadly sideways trend that has been in place for much of the year. Sentiment remains at a level associated with an expansion in activity (index score >50), but only modestly so.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- In contrast, businesses are very optimistic in Chinese Taipei, where the index moved to its highest level in more than 6½ years. Confidence has been supported by marked increases in demand & new orders – including for exports – along with employment. However, input costs have also picked up in recent months.
- On a trade-weighted basis, the US\$ pared last month's gains, returning to its Oct level. The US\$ index is down 6%yoy. In Dec, the CNY rose 1.6% & the TWD 1.2% vs the US\$. Over the past year, the CNY is up 6.5% & the TWD 8% overall against the US\$.
- Oil & jet fuel prices trended higher in Dec, ending 2017 with a 3%mom gain to US\$64 & US\$76 respectively. Both prices are up more than 20% in yoy terms.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
Region (registration basis)				
Asia Pacific	9.5	9.2	10.1	11.3
World	6.7	5.9	7.3	8.0
Routes (segment basis)				
China domestic	11.7	11.1	10.0	14.1
Asia - Europe	1.8	7.5	6.3	9.9
Within Asia	9.2	9.2	11.2	12.7
Asia - Nth America	9.6	1.5	4.2	5.4
Asia - Middle East	9.3	4.9	9.2	9.3
Asia - S/w Pacific	4.0	7.5	9.6	8.4
Asia - Africa	6.8	3.2	4.7	2.0

Source: IATA Statistics Asia-Pac incl North Asia

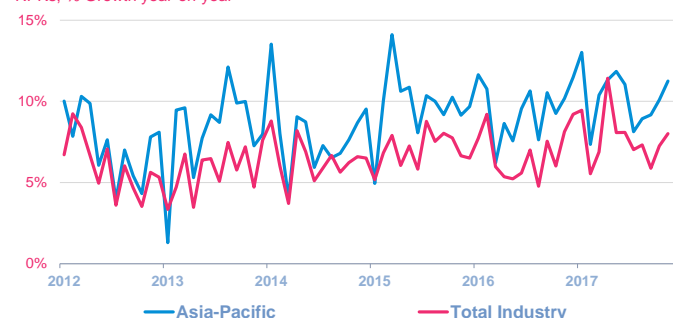
- Industry-wide RPKs grew by 8.0%yoy in Nov – the fastest pace in 5 months & up from 7.3% in Nov. Pax volumes are carrying solid momentum into the year-end & look set to deliver another year of above-trend growth.
- Growth in pax volumes for the AsiaPac carriers also moved a little higher this month, maintaining both its double-digit pace, at 11.3%yoy, & its position as the

fastest growing region, by some margin.

- China domestic RPK growth also lifted this month, to 14.1%yoy, only slightly below that of India (16.4%). As is the case with the industry aggregate, this is the fastest rate of pax volume growth in 5 months.
- Of the larger international markets, Within Asia is the standout, followed by Asia-Europe, with growth in pax volumes of 12.7% & 9.9%yoy, respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
Region (registration basis)				
Asia Pacific	1.7	8.9	3.5	8.1
World	3.7	9.3	5.8	8.8
Routes (segment basis)				
Asia - Europe	3.9	8.7	2.4	8.3
Asia - Nth America	0.2	8.8	4.5	8.3
Within Asia	6.6	14.7	4.8	11.0
Asia - Middle East	3.7	10.7	3.1	6.7
Asia - S/w Pacific	1.1	10.8	14.3	9.2
Asia - Africa	30.1	63.8	63.3	45.8

Source: IATA Statistics Asia-Pac incl North Asia

- Global FTK growth accelerated to 8.8%yoy in Nov, up from 5.8% in Oct. Freight volumes remain on track to record their strongest year of growth since the post-GFC rebound in 2010.
- For the AsiaPac carriers, FTK growth recovered sharply, returning to a brisk 8.1%yoy pace, but remaining moderately below the overall industry-wide performance.

Industry

Capacity growth and load factors

%change on a yr ago, LF: % of ASK/AFTK		2016	Sep-17	Oct-17	Nov-17
Passenger					
Asia Pacific	ASK	8.4	8.3	8.8	9.0
	PLF	79.7	80.3	80.4	80.6
World	ASK	6.7	5.4	6.1	6.3
	PLF	80.5	81.6	80.9	80.2
Freight					
Asia Pacific	AFTK	3.2	3.4	1.2	1.2
	FLF	52.8	57.1	57.0	60.1
World	AFTK	5.4	3.4	2.8	4.0
	FLF	42.9	45.8	47.2	49.1

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

- The Nov load factors for the AsiaPac carriers exceed the industry average for both pax (80.6% vs 80.2%) & freight (60.1% vs 49.1%). This comes alongside strong growth in ASKs (up 9.0%yoy) but a much more subdued performance for AFTKs (up just 1.2%yoy). The FLF result remains easily the highest amongst all regions.
- The final Q3 data show a modest improvement in the region's financial performance compared with the same period last year. The EBIT margin for the AsiaPac carriers is up 0.6pp to 11.3% currently. Even so, it remains below the industry-wide outcome of 14.7% (which is down from an even 15% in Q3 2016).

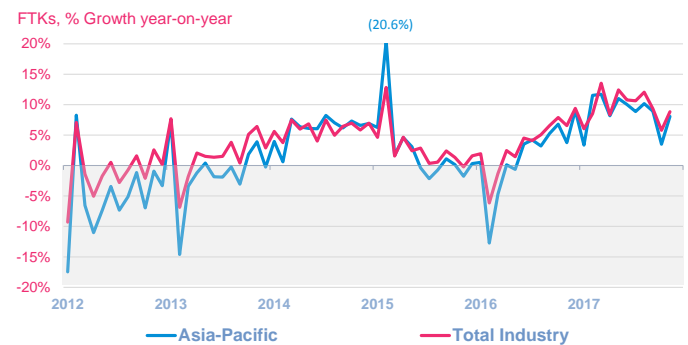
Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q3	2017Q3
Asia Pacific	8.0	10.0	10.7	11.3
Industry	8.5	8.8	15.0	14.7

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

- The rebound is clear across all of the key markets, with Europe & Within Asia the most notable, with a ~6pp gain in the growth rate for both, to 8.3% & 11.0%yoy.
- Manufacturers in the major exporting nations of China & Japan, in particular, have continued to report rising demand for their exports, helped in part by a supportive economic backdrop in Europe & the US.

Growth in air freight volumes



Source: IATA Statistics

- The pax yield performance remains mixed compared with a year-ago. Yields on routes between Asia & Europe are currently up 6.6%yoy while Asia-Sth America yields are still 4% lower than their year-ago levels. China domestic yields are down 1.1%yoy.

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

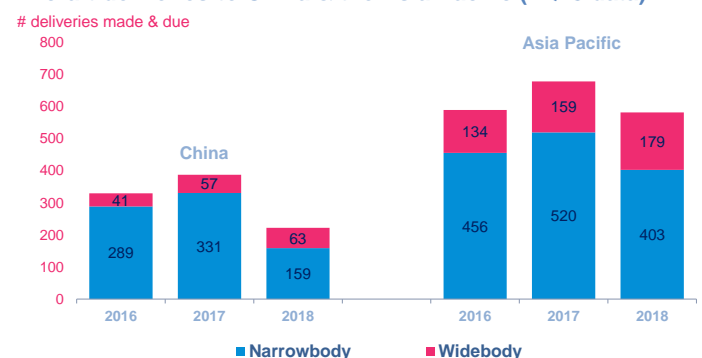
%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
China domestic	-7.6	-3.6	-3.5	-1.1
Asia - Europe	-10.3	5.7	3.2	6.6
Within Asia	-10.0	-5.1	-5.2	-2.3
Asia - Nth America	-7.2	-5.7	-3.4	-2.9
Asia - Middle East	-10.5	-2.3	-2.1	-1.8
Asia - Sth America	-9.1	-2.0	-0.3	-4.0
Asia - Africa	-8.8	0.6	3.7	2.3

Source: IATA PaxIS

Note: historical data may be subject to revision

- The latest data suggest a modest reduction in the number of jet aircraft expected to be delivered to both the AsiaPac airlines overall, & the Chinese carriers specifically, in 2018 vs 2017. In both cases, an increase in the number of widebody deliveries is more than offset by fewer narrowbodies.

Aircraft deliveries to China & the Asia Pacific (1Q18 data)



Source: Ascend

Note: Asia-Pac incl North Asia