State of the region: North Asia

January 2021

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	Oct-20	Nov-20	Dec-20
US$ broad index	114.7	116.5	113.6	111.7
Chinese renminbi (CNY)	6.96	6.69	6.58	6.52
Taiwanese dollar (TWD)	30.0	28.6	28.5	28.1
Hong Kong dollar (HKD)	7.79	7.75	7.75	7.75
Mongolian tughrik (MNT)	2740	2845	2861	2855

Source: Datastream

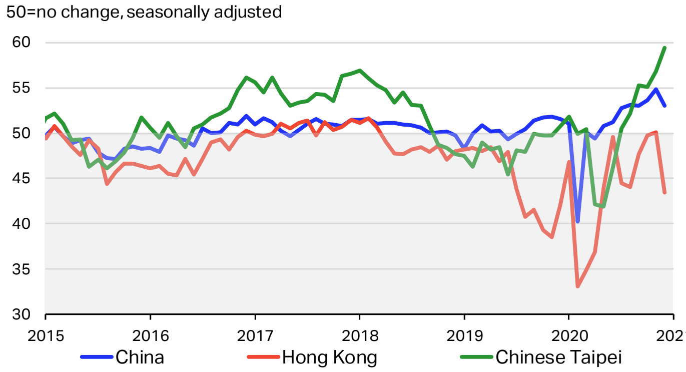
World oil and jet fuel price

US$/barrel (period ave.)	2019	Oct-20	Nov-20	Dec-20
Crude oil (Brent)	64.2	41.6	44.1	50.4
Jet fuel	79.6	43.5	47.7	55.4

Source: Platts, Datastream (monthly average data)

- Business sentiment in the manufacturing sector eased slightly in China but remained at elevated levels. The country's economic backdrop continues to recover from the crisis, with Q4 GDP up a robust 6.5%yoy.

Business confidence - manufacturing PMIs



Source: Markit

- Operating conditions have been improving sharply in Chinese Taipei, as both domestic and external demand recover despite the rising infection rate. In contrast, the business environment became more challenging in Hong Kong, where the resurgence of the virus led to renewed restrictions and distorted supply chains.
- The trade-weighted US dollar index eased further in December (down 1.7%) amidst the global economic recovery. Of the key regional currencies, the TWD was the main mover, gaining 1.4% vs. the US$.
- Brent Crude oil and jet fuel price strengthened in December, reflecting positive news about vaccines, stronger oil demand from Asia, and looser restrictions in some European countries before the holiday season.

Market

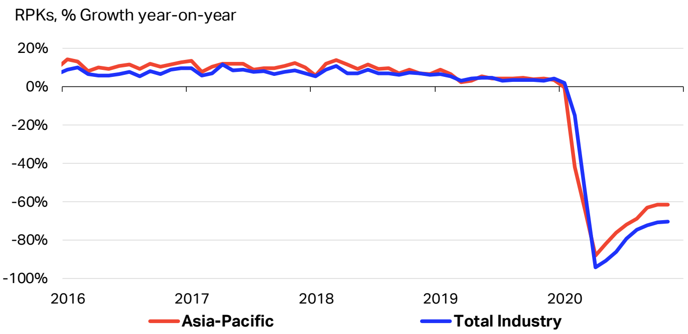
Revenue passenger-kilometers (RPKs)

% change on a yr ago	2019	Sep-20	Oct-20	Nov-20
Region (registration basis)				
Asia Pacific	4.7	-63.1	-61.4	-61.6
World	4.1	-72.2	-70.6	-70.3
Routes (segment basis)				
China domestic	7.9	-2.8	-1.4	-4.8
Asia - Europe	6.7	-92.9	-92.9	-93.2
Within Asia	5.3	-98.2	-98.2	-97.7
Asia - Nth America	2.4	-93.7	-93.7	-92.5
Asia - Middle East	4.2	-88.8	-86.9	-86.2
Asia - S/w Pacific	6.0	-97.5	-97.6	-97.6
Asia - Africa	3.5	-93.5	-93.1	-93.8

Source: IATA Economics. Asia-Pac incl North Asia

- The recovery in air travel has stalled amidst elevated COVID-19 cases and the re-introduction of travel restrictions in some regions. Industry wide-revenue passenger-kilometres fell by 70.3%yoy in November – a broadly unchanged decline from October.
- Asia Pacific airlines reported a broadly unchanged contraction from the previous month, with RPKs 61.6% lower compared to the same period a year ago.
- Most of the key international markets continued to report sharp year-on-year RPK declines. Asia-Middle East routes had been the most resilient, although the 86.2% decline this month is still a very weak result.
- China reported a slightly faster fall in domestic RPKs vs. October (-4.8%yoy vs. -1.4%yoyo) but was still the best performing key domestic market. Lower fares, swift recovery in consumer confidence, and successful control of the virus have supported the domestic market's rebound.

Growth in air passenger volumes



Source: IATA Economics

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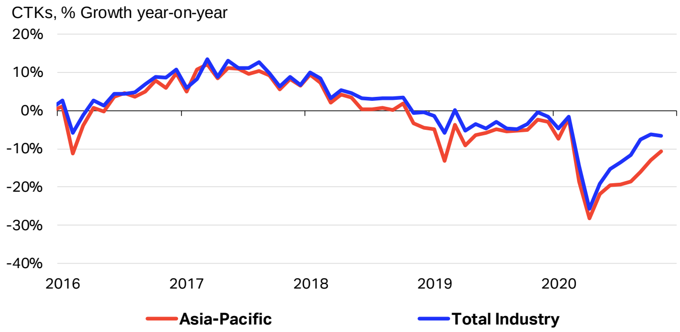
Cargo tonne-kilometers (CTKs)

% change on a yr ago	2019	Sep-20	Oct-20	Nov-20
Region (registration basis)				
Asia Pacific	-5.6	-16.0	-13.0	-10.6
World	-3.2	-7.6	-6.2	-6.6
Routes (segment basis)				
Asia - Europe	-1.5	-16.7	-14.5	-13.4
Asia - Nth America	-3.7	3.8	5.4	9.3
Within Asia	-7.7	-22.8	-21.3	-19.6
Asia - Middle East	-2.3	0.2	3.9	1.4
Asia - S/w Pacific	-6.1	-43.7	-43.4	-44.8
Asia - Africa	12.6	23.6	4.2	-4.5

Source: IATA Economics. Asia-Pac incl North Asia

- Industry-wide cargo tonne-kilometres (CTKs) fell by 6.6% year-on-year in November vs. a 6.2% fall in October. The softer growth outcome this month can be, however, entirely attributed to a strong month of November 2019.
- Asia Pacific airlines registered the most significant improvement of all the regions in November, with cargo volumes falling by 10.6%yoy – a 2.5ppts improvement from the decline in October.
- While international traffic within the region remained weak (down 19.6%yoy in November), exports toward North America were buoyant, driven by e-commerce and PPE shipments (CTKs up 9.3%yoy).

Growth in air cargo volumes



Source: IATA Economics

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago, LF: % of ASK/ACTK		2019	Sep-20	Oct-20	Nov-20
Passenger					
Asia Pacific	ASK	4.4	-57.2	-54.4	-52.9
	PLF	*81.9*	*69.3*	*69.0*	*66.4*
World	ASK	3.4	-62.3	-59.8	-58.6
	PLF	*82.6*	*60.4*	*60.1*	*58.0*
Cargo					
Asia Pacific	ACTK	0.9	-29.0	-24.3	-22.7
	CLF	*52.3*	*63.7*	*61.9*	*63.1*
World	ACTK	2.0	-25.3	-22.4	-20.0
	CLF	*46.8*	*57.1*	*57.5*	*58.2*

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

- The passenger load factor (PLF) remained at record lows across most regions and at the industry-wide level (58%) in November. Carriers from the Asia Pacific region reported the PLF down 15ppts compared with a year ago, at 66.4%.
- On the freight side, demand continued to outpace supply, which resulted in a new record-high industry-wide load factor (CLF) for any month of November in our series. Asia Pacific airlines posted the CLF up 8.5ppts vs. a year ago.
- Our final Q3 financial results indicate that airlines continued to suffer from low travel demand and burnt cash, albeit at a slower rate compared to Q2 with the help of cost-cutting measures and robust cargo revenues. The Q4 will remain challenging for airline financials since the slow recovery in passenger demand observed during the northern-summer season stalled towards the end of the year.
- Note that the passenger yield data should be interpreted with caution due to the small number of tickets being sold amidst the pandemic crisis.

Airline operating (EBIT) margins*

% revenues	2018	2019	2019Q3	2020Q3
Asia Pacific	4.7	3.7	6.3	-41
Industry	5.7	5.2	12.1	-45

Source: Airline Analyst * constant sample basis, not seasonally adjusted

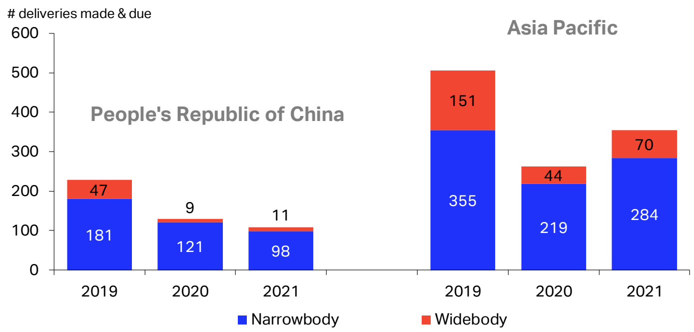
Passenger yields (US$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Sep-20	Oct-20	Nov-20
China domestic	-6.1	-6.5	-8.1	-13.1
Asia - Europe	-7.7	-3.2	6.1	-1.6
Within Asia	-4.5	-4.4	-6.4	-9.9
Asia - Nth America	-2.6	1.4	0.7	-6.7
Asia - Middle East	7.7	47.2	57.0	34.3
Asia - Sth America	-7.8	8.7	5.0	6.4
Asia - Africa	-5.8	83.9	104.9	74.7

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

- Asia Pacific carriers received 48% fewer aircraft deliveries in 2020 compared with 2019. As for China, the deliveries dropped by 43%. The fall was driven by airlines' efforts to reduce cash outflow amidst the pandemic crisis.

Aircraft deliveries to China & the Asia Pacific (as of Jan. 2021)



Source: Ascend

Note: Asia Pacific includes North Asia