



STATE OF THE REGION: NORTH ASIA

JULY 2017

Economy

GDP growth, selected countries

%change on a yr ago	2016	2016Q3	2016Q4	2017Q1
China	6.7	6.7	6.7	6.9
Chinese Taipei	1.5	2.3	2.7	2.4
Hong Kong	2.0	2.0	3.2	4.3
Mongolia	1.1	-7.3	9.8	4.2
Emerging Asia	6.4	--	--	--
World*	2.3	2.3	2.6	2.6

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Apr-17	May-17	Jun-17
US\$ broad index	127.7	124.3	123.8	122.3
Chinese renminbi (CNY)	6.96	6.89	6.81	6.78
Taiwanese dollar (TWD)	32.3	30.2	30.1	30.4
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2417	2392	2347

Source: Datastream, XE

World oil and jet fuel price

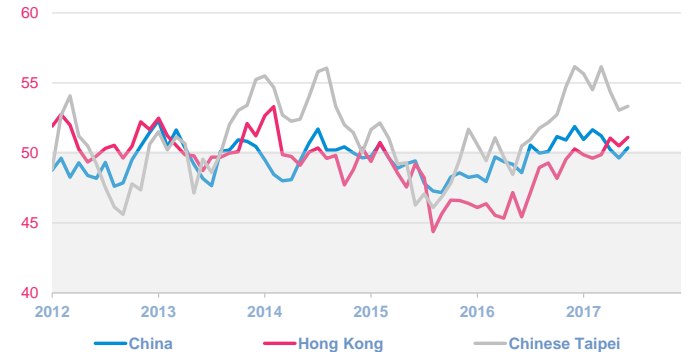
US\$/barrel	2016	Apr-17	May-17	Jun-17
Crude oil (Brent)	52.4	52.3	50.3	46.4
Jet fuel	64.0	63.4	59.3	54.4

Source: Platts, EIA Monthly average data

→ Business confidence in each of the region's main markets ticked up this month, with the index for China moving back above the key 50 index level, which points to expansion in manufacturing output. Businesses in Hong Kong remain cautious, but the steady upwards

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

trend in the confidence data since early 2016 is still in place, despite a pause last month. Chinese Taipei has the highest level of business confidence of the key three markets, but sentiment has drifted back from the levels of early this year.

- On a trade-weighted basis, the US\$ slipped further in June, ending the month 1.3% lower. Amongst the main regional currencies, the TWD lost 1% in the month vs the US\$ while the MNT rose another 2% mom & is now up almost 6% over the year to date.
- Brent crude oil & jet fuel prices fell by 4-5% in June, with the former returning to below US\$50/bbl. Once again this month, supply-side considerations were the primary price drivers.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Mar-17	Apr-17	May-17
Region (registration basis)				
Asia Pacific	9.0	10.4	11.0	11.8
World	6.4	6.7	10.9	7.7
Routes (segment basis)				
China domestic	11.7	15.3	12.7	16.8
Asia - Europe	1.8	11.1	14.5	15.3
Within Asia	7.3	7.0	7.1	6.6
Asia - Nth America	6.4	5.3	8.6	5.8
Asia - Middle East	9.0	4.5	10.0	6.0
Asia - S/w Pacific	3.8	6.3	17.5	9.3
Asia - Africa	6.8	3.5	4.7	8.1

Source: IATA Statistics Asia-Pac incl North Asia

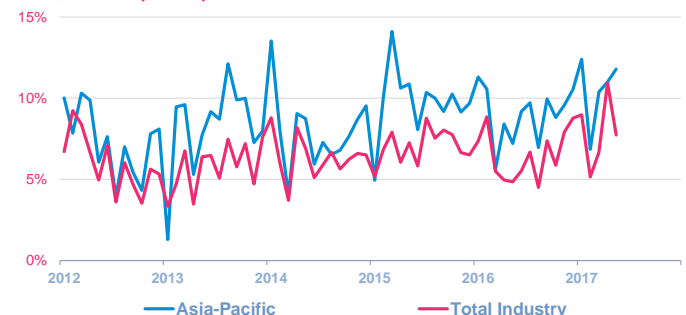
- After reaching a six-year high of 10.9% in April, growth in global RPKs slowed to (a still robust) 7.7% yoy pace in May. The Asia-Pac carriers went against the global trend, with growth in pax volumes increasing, albeit only slightly, to 11.8% yoy.
- RPK growth for the China domestic market also stepped up in May, to 16.8% yoy. This represents the 10th

consecutive month of double-digit yoy growth, with little sign of slowdown in the seasonally-adjusted traffic trend.

- Of the larger international markets, Asia-Europe remains the strongest performer with RPK growth now running at 15.3% yoy. Growth amongst the other key markets generally eased a little in May, but with a still solid performance across the Within Asia (6.6%), Middle East (6.0%) & NthAm (5.8%) markets.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Mar-17	Apr-17	May-17
Region (registration basis)				
Asia Pacific	2.0	13.0	9.1	11.3
World	3.9	13.8	8.7	12.7
Routes (segment basis)				
Asia - Europe	3.9	20.0	11.9	13.4
Asia - Nth America	-1.2	12.9	9.3	13.1
Within Asia	7.0	15.9	14.0	13.6
Asia - Middle East	3.7	9.6	1.4	9.9
Asia - S/w Pacific	1.1	9.2	2.9	10.5
Asia - Africa	30.1	74.4	66.5	73.5

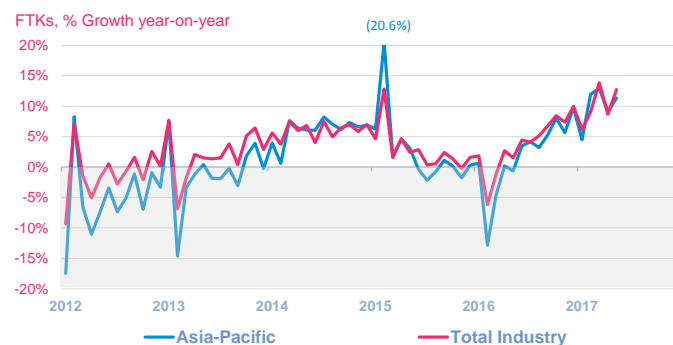
Source: IATA Statistics Asia-Pac incl North Asia

- Global FTKs bounced-back in May, returning to a brisk double-digit pace of growth, at 12.7%yoy; more than three times the 5-year average growth rate.
- As with their pax counterpart, regional FTK growth also stepped up this month, returning to a double-digit pace, at 11.3%yoy.
- The top 3 largest freight markets for the region are each

showing FTK growth above 13%yoy. Such outcomes are consistent with the strong export orders data of recent months, although we note that these data have started to become more mixed across countries in the region.

- The Asia-Africa market continues to show the strongest FTK growth, up a massive 73%yoy, albeit from a much smaller base level.

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	2016	Mar-17	Apr-17	May-17
Passenger				
Asia Pacific ASK	8.0	8.3	8.1	8.6
Asia Pacific PLF	79.6	80.2	81.3	79.6
World ASK	6.4	6.3	7.2	6.1
World PLF	80.5	80.2	82.1	80.1
Freight				
Asia Pacific AFTK	3.5	4.3	4.2	6.2
Asia Pacific FLF	52.8	56.9	54.7	54.7
World AFTK	5.4	3.9	4.0	5.2
World FLF	43.0	47.4	45.1	45.2

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

- At the industry level, robust demand conditions combined with moderate capacity increases have resulted in a strong performance for both pax & freight load factors over the course of the year so far.
- The region's airlines have increased both pax & freight capacity by more than the industry-wide aggregate (by 2.5pp in the case of the former & 1pp for the later). The May load factor data shows the Asia-Pac carriers a little lower than the industry figure on the PLF (79.6% vs 80.1%) but well above for the FLF (54.7% vs 45.2%).
- Q1 financial data highlight the degree of margin squeeze in the industry; the EBIT margin having almost halved at

both the industry level & for the Asia-Pac carriers compared with Q1 2016. The current Asia-Pac margin of 4.3% (down from 8.0% in 2016Q1) is broadly consistent with the industry-wide 4.5% (down from 8.7%).

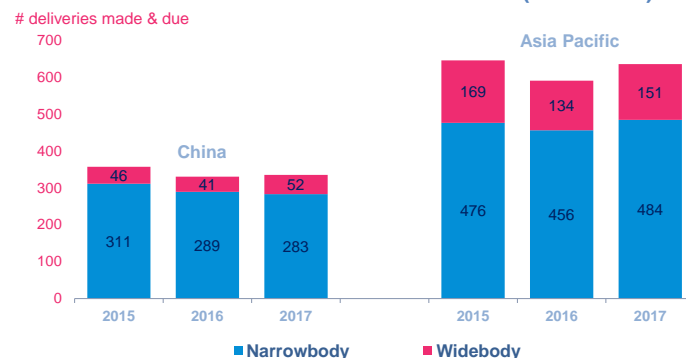
- Global pax yields are ~4.5% lower than a year ago, but continue to show signs of having possibly bottomed. At the regional level, yoy yields have shown a general narrowing over recent months & have now risen for each of the Australia domestic, Asia-Europe & Asia-Middle East markets.

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

%change on a yr ago	2016	Mar-17	Apr-17	May-17
China domestic	-7.6	-10.6	-9.3	-8.2
Asia - Europe	-10.3	1.1	-5.4	1.5
Within Asia	-10.0	-7.7	-7.8	-5.6
Asia - Nth America	-7.2	-0.6	-2.2	-2.7
Asia - Middle East	-10.5	-7.5	-4.3	0.8
Asia - Sth America	-9.1	-5.9	-1.8	-1.6
Asia - Africa	-8.8	-0.4	-2.7	-0.9

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q1	2017Q1
Asia Pacific	8.0	10.0	8.0	4.3
Industry	8.5	8.8	8.7	4.5

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