



STATE OF THE REGION: NORTH ASIA

JULY 2018

Economy

GDP growth, selected countries

%change on a yr ago	2017	2017Q3	2017Q4	2018Q1
China	6.9	6.9	6.9	6.8
Chinese Taipei	2.9	2.8	3.4	3.1
Hong Kong	3.8	3.6	3.4	4.7
Mongolia	5.1	6.5	3.7	6.0
Emerging Asia	6.5	--	--	--
World*	3.2	3.2	3.3	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Apr-18	May-18	Jun-18
US\$ broad index	120.0	118.2	121.5	123.4
Chinese renminbi (CNY)	6.51	6.33	6.41	6.62
Taiwanese dollar (TWD)	29.7	29.6	30.0	30.5
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2429	2394	2407	2460

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Apr-18	May-18	Jun-18
Crude oil (Brent)	54.2	72.1	77.0	74.4
Jet fuel	65.6	84.6	90.5	87.8

Source: Platts, EIA Monthly average data

→ Business confidence in Hong Kong fell slightly again this month on further signs of softer demand, including from the mainland, & is at its lowest level in 15 months.

Business confidence - manufacturing PMIs



Source: Markit

- Sentiment in China continued its recent sideways trend, although concerns of a possible trade war weighed upon the export sector this month.
- On a trade-weighted basis, the US\$ rose by 1.6% in June, a second consecutive solid monthly gain. Amongst the main regional currencies, the CNY ended the month down a sizeable 3.3% vs the US\$, while the MNT & TWD fell by 2.2% & 1.6%, respectively.
- Brent crude oil & jet fuel prices both fell in June, by 3-3.5%, but only partly unwound the sizeable increase in May. Oil & jet fuel prices are still ~60% higher than their level of a year ago.

Market

Revenue passenger kilometers (RPKs)

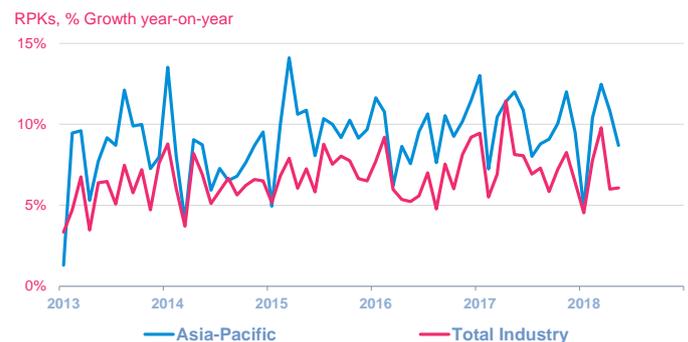
%change on a yr ago	2017	Mar-18	Apr-18	May-18
Region (registration basis)				
Asia Pacific	10.2	12.5	10.8	8.7
World	7.6	9.8	6.0	6.1
Routes (segment basis)				
China domestic	13.4	16.5	16.1	11.9
Asia - Europe	9.5	8.5	5.0	4.4
Within Asia	11.2	12.1	10.6	9.8
Asia - Nth America	4.9	10.5	5.3	4.2
Asia - Middle East	7.3	9.3	4.4	-0.8
Asia - S/w Pacific	9.2	11.9	2.9	8.4
Asia - Africa	4.1	12.7	12.6	4.7

Source: IATA Statistics Asia-Pac incl North Asia

- Annual growth in industry-wide RPKs was broadly unchanged in May, at a solid 6.1%. While yoy growth remains above its long-run average rate, this year to date has seen a moderate slowing compared with the same period a year ago (6.3% vs 8.3% last year).
- Pax volume growth for the AsiaPac carriers eased again this month, to 8.7%yoy, from 10.8% in Apr. Nonetheless, AsiaPac remained the fastest growing region in terms of passenger volumes on this occasion.

- Domestic China RPKs grew by a 11.9%yoy in May, down somewhat from the 16+% pace of recent months, but the strong upward trend remains in place. The number of domestic airport pairs in China has risen by more than 50% over the past four years, underpinning the ongoing growth performance.
- Within Asia is still the standout amongst the region's main international markets despite a modest slowing in recent months, with pax volumes up a strong 9.8%yoy. Asia-S/west Pacific is next, with growth of 8.4%yoy.

Growth in air passenger volumes



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Mar-18	Apr-18	May-18
Region (registration basis)				
Asia Pacific	7.7	2.6	5.6	4.9
World	9.1	2.5	5.2	4.2
Routes (segment basis)				
Asia - Europe	11.0	-1.2	0.8	1.0
Asia - Nth America	8.7	2.6	7.0	5.3
Within Asia	13.0	2.7	3.0	6.1
Asia - Middle East	6.3	-0.6	6.3	2.7
Asia - S/w Pacific	9.4	-3.5	3.3	6.1
Asia - Africa	58.6	-4.9	4.1	-0.7

Source: IATA Statistics Asia-Pac incl North Asia

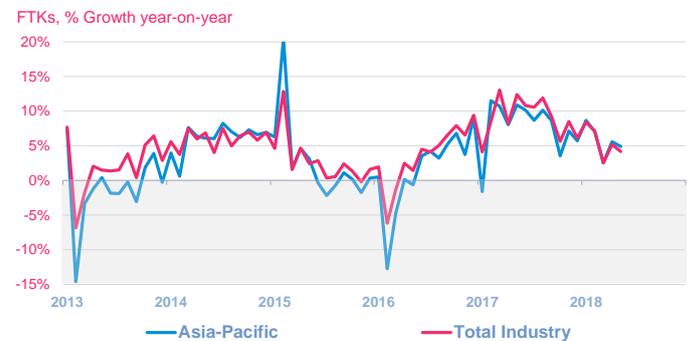
→ Annual growth in industry-wide FTKs slowed to 4.2% in May, from 5.2% in Apr. Against a weaker world trade backdrop, demand momentum has also softened; FTKs have risen at an annualized pace of ~4% over the past 6mths or so, around 1/3 the pace of mid-2017.

→ At the regional level, FTK growth also eased moderately this month for the AsiaPac airlines, to a 4.9%yoy pace, retaining a margin above the industry outcome.

→ Across the region's main international markets, Within Asia is also the strongest performer in terms of growth in freight (as well as pax) volumes this month, with FTKs up a robust 6.1%yoy, followed closely by Asia-Nth America at 5.3%yoy.

→ Only the smaller Africa market is showing a yoy decline in freight volumes, with FTKs down 0.7%.

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	2017	Mar-18	Apr-18	May-18
Passenger				
Asia Pacific ASK	8.4	9.4	9.4	8.6
PLF	81.0	82.4	82.6	79.6
World ASK	6.3	6.6	5.9	5.9
PLF	81.5	82.5	82.2	80.1
Freight				
Asia Pacific AFTK	3.0	6.6	8.1	7.4
FLF	55.2	56.0	54.8	55.3
World AFTK	3.5	5.4	6.1	6.2
FLF	45.2	46.3	44.9	44.6

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

→ The latest industry-wide PLF marked the first time on record that the 80% level was exceeded in a May month. The performance of the AsiaPac carriers wasn't far behind, at 79.6%, even with 2.7pp faster growth in passenger capacity over the past year.

→ On the freight side, the region's airlines have also grown AFTKs quicker than the industry overall (7.4% vs 6.2%yoy). The region's freight load factor continues to set the industry benchmark; at 55.3% this month, it is ~10pp above the industry-wide outcome of 44.6%.

→ The latest financial data for Q1 show the EBIT margin outcome for the AsiaPac carriers is moderately higher

Airline operating (EBIT) margins*

%revenues	2016	2017	2017Q1	2018Q1
Asia Pacific	7.4	5.5	6.6	6.2
Industry	8.5	7.5	4.9	5.6

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

than that of the industry overall (6.2% vs 5.6%). This comes despite a slightly softer performance compared with a year ago for the region's airlines (down from 6.6%) & an improvement over the same period for the industry as a whole (up from 5.6%).

→ Passenger yield developments across the region's key markets over the past year are generally robust. Of note, China domestic yields are up a strong 11.4%yoy while, in contrast, Asia-ME yields are down ~7%.

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

%change on a yr ago	2017	Mar-18	Apr-18	May-18
China domestic	-5.3	15.3	11.7	11.4
Asia - Europe	1.9	6.3	9.5	2.5
Within Asia	-5.6	8.3	6.5	4.4
Asia - Nth America	-3.2	-0.5	2.4	2.8
Asia - Middle East	-3.5	-3.8	-5.0	-6.9
Asia - Sth America	-4.2	5.6	5.5	3.2
Asia - Africa	-0.1	0.5	2.9	0.6

Source: IATA PaxIS

Note: historical data may be subject to revision

Aircraft deliveries to China & the Asia Pacific



Source: Ascend

Note: Asia-Pac incl North Asia