STATE OF THE REGION: NORTH ASIA

JUNE 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	Mar-17	Apr-17	May-17
US$ broad index	127.7	125.3	124.3	123.8
Chinese renminbi (CNY)	6.96	6.89	6.89	6.81
Taiwanese dollar (TWD)	32.3	30.4	30.2	30.1
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tughrik (MNT)	2488	2446	2417	2392

Source: Datastream, XE

World oil and jet fuel price

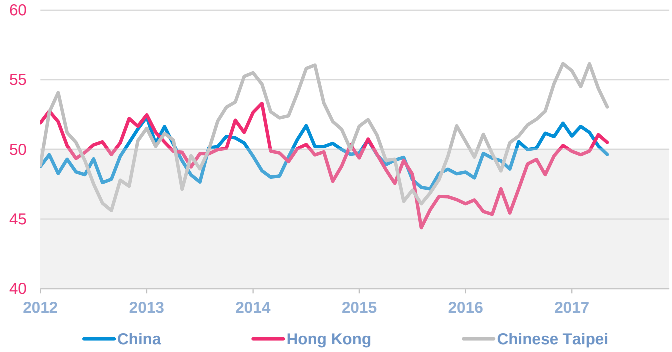
US$/barrel	2016	Mar-17	Apr-17	May-17
Crude oil (Brent)	52.4	51.6	52.3	50.3
Jet fuel	64.0	60.7	63.4	59.3

Source: Platts, EIA Monthly average data

- Business confidence in each of the region's main markets fell this month. In China, the index slipped below the key 50 index level, pointing to a contraction in manufacturing output. However, growth in the services sector continues to support overall economic activity. Despite the upward trajectory in GDP growth over recent quarters, businesses in Hong Kong remain cautious, with the confidence index unwinding some of last month's gain.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- On a trade-weighted basis, the US$ eased a little in May, down 0.4%, & is now 3% lower than the start of the year. Amongst the main regional currencies, the MNT gained another 1% vs the US$ in the month & the CNY appreciated by a solid 1.2%.
- Brent crude oil & jet fuel prices fell by US$2 & US$4/bbl in May, reaching their lowest level in ~5mths & both more than unwinding the April gain. The moves were mainly driven by strong supply & inventories data.

Market

Revenue passenger kilometers (RPKs)

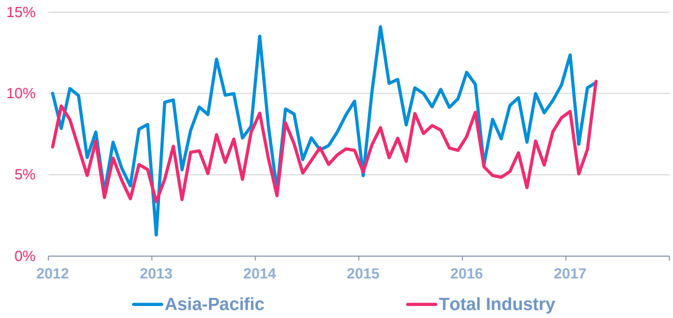
%change on a yr ago	2016	Feb-17	Mar-17	Apr-17
Region (registration basis)				
Asia Pacific	9.0	6.9	10.3	10.7
World	6.3	5.1	6.5	10.7
Routes (segment basis)				
China domestic	11.7	10.9	15.3	12.7
Asia - Europe	1.8	9.5	11.2	14.5
Within Asia	7.3	4.1	7.0	7.1
Asia - Nth America	6.4	3.1	6.4	8.6
Asia - Middle East	9.0	5.7	4.5	10.0
Asia - S/w Pacific	3.8	5.3	7.2	17.5
Asia - Africa	6.8	1.3	3.5	4.7

Source: IATA Statistics Asia-Pac incl North Asia

- Global RPKs stepped up in Apr, growing by a brisk 10.7%yoy – the fastest rate in six years. The pace of growth also shifted higher, albeit only modestly, at the regional level, to match the global pace. Putting this into context, the long-run average growth rate is around 5.5%yoy.
- RPK growth for the China domestic market eased a little in Apr, nonetheless recording a very healthy 12.7%yoy pace of growth. The number of domestic routes in China is scheduled to increase by more than 9% in 2017, alongside a modest increase in average flight frequencies as well.
- Of the larger international markets, Asia-Europe is currently the strongest performer with RPK growth of 14.5%yoy. Asia-Middle East, along with the smaller Asia-S/west Pacific market, are also growing at a double-digit rate.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

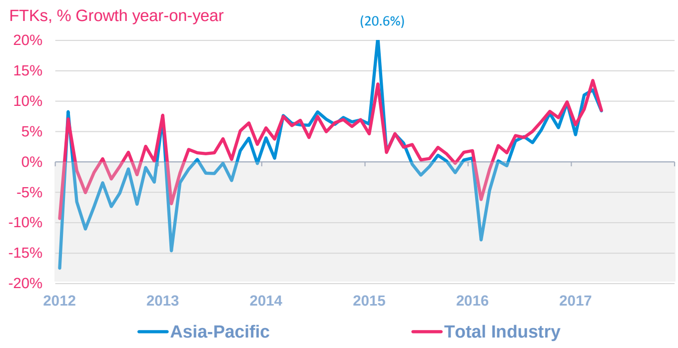
Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Feb-17	Mar-17	Apr-17
Region (registration basis)				
Asia Pacific	2.0	11.0	11.8	8.4
World	3.8	8.7	13.4	8.5
Routes (segment basis)				
Asia - Europe	3.9	10.9	20.0	11.9
Asia - Nth America	-1.2	11.8	13.0	10.2
Within Asia	7.0	20.6	15.8	14.0
Asia - Middle East	3.7	-6.2	9.4	1.4
Asia - S/w Pacific	1.1	4.4	6.6	2.9
Asia - Africa	30.1	34.9	74.4	66.5

Source: IATA Statistics   Asia-Pac incl North Asia

- Global FTKs grew by 8.5%yoy in Apr, dipping from the very strong 13.4% pace of last month. Despite the robust start to 2017, the upward trend in the seasonally adjusted data has slowed to a more modest 4% annualized pace since the end of last year.
- At the regional level, FTK growth also eased, from its recent double-digit pace & moving into line with the industry rate, at 8.4%yoy.
- The three largest markets all continue to post double-digit growth in freight volumes compared with a year ago. Business confidence surveys across much of the region continue to indicate strong export order books which should, in turn, help to support freight volumes going forward.
- The smaller Asia-Africa market continues to show the strongest FTK growth, up a massive 67%yoy.

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	Feb-17	Mar-17	Apr-17
Passenger					
Asia Pacific	ASK	8.0	3.8	8.4	8.1
	PLF	*79.6*	*81.6*	*80.2*	*81.1*
World	ASK	6.2	2.8	6.2	7.1
	PLF	*80.5*	*79.6*	*80.1*	*82.0*
Freight					
Asia Pacific	AFTK	3.5	1.2	4.0	3.7
	FLF	*52.8*	*49.3*	*56.5*	*54.7*
World	AFTK	5.3	0.2	4.1	3.9
	FLF	*43.0*	*43.4*	*47.2*	*45.0*

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

- Asia-Pac carriers have increased pax capacity at a faster pace than the industry overall in the past year; ASKs are up 8.1% vs the industry-wide 7.1%. Freight capacity growth is, however, similar, with AFTKs up 3.7% & 3.9%, respectively.
- The load factor performance this month is mixed. The Asia-Pac outperformance on freight continues, with the FLF ~10pp above the industry figure, but the PLF has dipped below the global outcome, at 81% vs 82%.
- Q1 financial data highlight the degree of margin squeeze in the industry; the EBIT margin having halved at both the industry level & for the Asia-Pac carriers compared with Q1 2016. The current Asia-Pac margin of 3.5% is broadly in line with the industry-wide 4.0%.

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q1	2017Q1
Asia Pacific	8.0	10.0	7.0	3.5
Industry	8.5	8.8	8.3	4.0

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

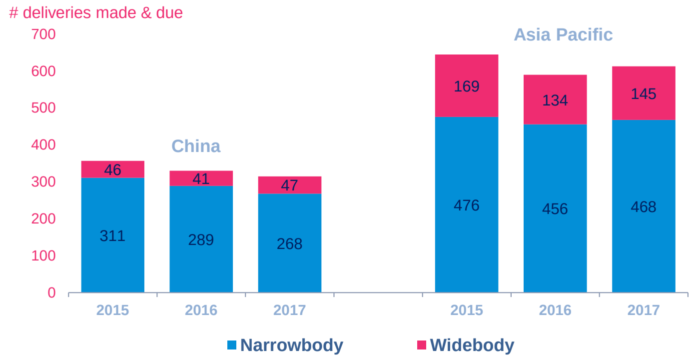
- Global pax yields are still down 3-5%yoy, but continue to show signs of having possibly bottomed. At the regional level, yoy yield performance remains mixed; some yields have clearly narrowed over the past year, others not so much; China domestic & Within Asia yields are down 9.5% & 8% respectively, for example.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Feb-17	Mar-17	Apr-17
China domestic	-7.4	-6.7	-10.9	-9.5
Asia - Europe	-10.3	-3.7	0.6	-6.3
Within Asia	-10.0	-7.8	-7.7	-7.9
Asia - Nth America	-7.2	-2.3	-0.7	-2.4
Asia - Middle East	-10.5	-11.6	-7.6	-4.1
Asia - Sth America	-9.1	-8.8	-6.4	-2.1
Asia - Africa	-8.8	-3.0	-0.5	-3.2

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

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