



# STATE OF THE REGION: NORTH ASIA

JUNE 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	2.9	3.3	2.8
Hong Kong	3.8	3.6	3.4	4.7
Mongolia	5.1	6.5	3.7	6.0
Emerging Asia	6.5	--	--	--
<b>World*</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2017	Mar-18	Apr-18	May-18
US\$ broad index	120.0	118.1	118.2	121.5
Chinese renminbi (CNY)	6.51	6.29	6.33	6.41
Taiwanese dollar (TWD)	29.7	29.1	29.6	30.0
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2429	2388	2394	2407

Source: Datastream, XE

### World oil and jet fuel price

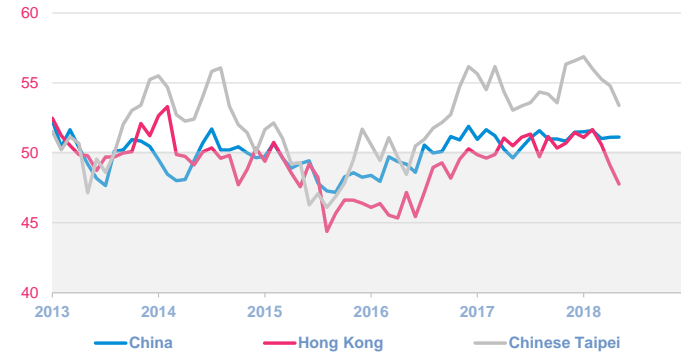
US\$/barrel (period ave.)	2017	Mar-18	Apr-18	May-18
Crude oil (Brent)	54.2	66.0	72.1	77.0
Jet fuel	65.6	78.0	84.6	90.5

Source: Platts, EIA Monthly average data

- ➔ Business sentiment in Hong Kong fell sharply this month, on weaker demand conditions & is now clearly in the region associated with a contraction in activity.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Sentiment in Chinese Taipei also fell abruptly on this occasion, but remains at an elevated level. Business confidence in China was unchanged, maintaining the sideways trend observed in recent months.

- ➔ On a trade-weighted basis, the US\$ rose by ~3% in May, benefitting from safe-haven inflows. Amongst the main regional currencies, the TWD & CNY fell by 1.2-1.3% vs the US\$ this month. The MNT was down 0.5%.
- ➔ Brent crude oil & jet fuel prices both rose further in May, by US\$5-6/bbl. Geopolitical concerns & supply tightening were key factors again this month. Prices are now more than 50% higher compared with a year ago.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Feb-18	Mar-18	Apr-18
<b>Region (registration basis)</b>				
Asia Pacific	10.2	10.4	12.3	10.9
World	7.6	7.8	9.7	6.2
<b>Routes (segment basis)</b>				
China domestic	13.4	13.0	15.9	15.5
Asia - Europe	9.5	7.1	8.5	5.0
Within Asia	11.2	8.3	12.0	10.5
Asia - Nth America	4.9	7.8	10.5	5.3
Asia - Middle East	7.3	5.7	9.3	4.4
Asia - S/w Pacific	9.2	8.8	11.9	2.9
Asia - Africa	4.1	13.3	12.7	12.6

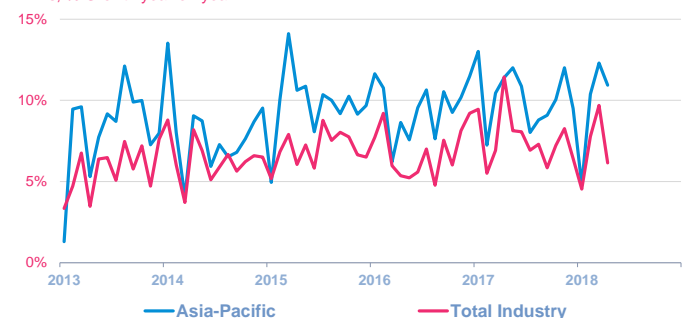
Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Annual growth in industry-wide RPKs slowed to 6.2% in April, from a 12-month high of 9.7% in Mar. The slowdown largely reflects developments a year ago – incl. the late timing of Easter in 2017. Even so, the rate of growth remains above its long-run average pace.
- ➔ Pax volume growth for the region's carriers also eased a little this month, to 10.9%yoy. However, AsiaPac remains the only region to record a double-digit pace of growth currently.

- ➔ Domestic China RPKs grew by a strong 15.5%yoy in Apr, well above the five year average pace (11.9%). While trade tensions remain a concern, the rebalancing of the economy more towards consumer spending should help to support air passenger demand over both the short and long-term horizon.
- ➔ Of the region's main international markets, Within Asia & Asia-Africa are the strongest performers currently, with passenger volumes for both continuing to grow at a double-digit yoy pace.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Feb-18	Mar-18	Apr-18
<b>Region (registration basis)</b>				
Asia Pacific	7.8	6.4	0.7	3.9
World	9.1	6.8	1.8	4.1
<b>Routes (segment basis)</b>				
Asia - Europe	11.0	8.7	-1.2	0.8
Asia - Nth America	8.7	7.3	1.8	5.6
Within Asia	13.0	4.6	2.7	3.0
Asia - Middle East	6.3	11.6	-0.6	6.0
Asia - S/w Pacific	9.4	0.6	-3.5	3.3
Asia - Africa	58.6	19.9	-4.9	4.1

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ After falling to a 23-month low in Mar, annual growth in industry-wide FTKs recovered to a solid 4.1% in Apr. In seasonally-adjusted terms, FTK volumes have been trending broadly sideways since August last year.
- ➔ A similar pattern is evident this month at the regional level where FTK growth rebounded moderately, to a 3.9%yoy pace, in line with the industry aggregate.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2017	Feb-18	Mar-18	Apr-18
<b>Passenger</b>					
Asia Pacific	ASK	8.4	9.5	9.2	9.2
	PLF	81.0	82.2	82.4	82.8
World	ASK	6.3	6.4	6.5	5.9
	PLF	81.5	80.5	82.5	82.3
<b>Freight</b>					
Asia Pacific	AFTK	1.4	7.4	5.5	6.7
	FLF	56.1	51.2	55.6	54.6
World	AFTK	3.0	6.7	4.8	5.1
	FLF	45.5	43.9	46.3	44.8

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

- ➔ Over the past year, the Asia Pacific carriers have increased pax capacity at a much faster pace than the industry overall (9.2%yoy vs 5.9%). Even so, the latest pax load factor data are broadly in line, both above 82%.
- ➔ On the freight side, the region's airlines have also grown AFTKs quicker than the industry overall (6.7% vs 5.1%yoy). The region's freight load factor sets the industry benchmark; at 54.6% in Apr, it is ~10pp above the industry-wide outcome.
- ➔ The latest financial data for Q1 show a 1pp improvement in the overall industry EBIT margin compared with a year ago, to 5.7% currently. The margin for the AsiaPac

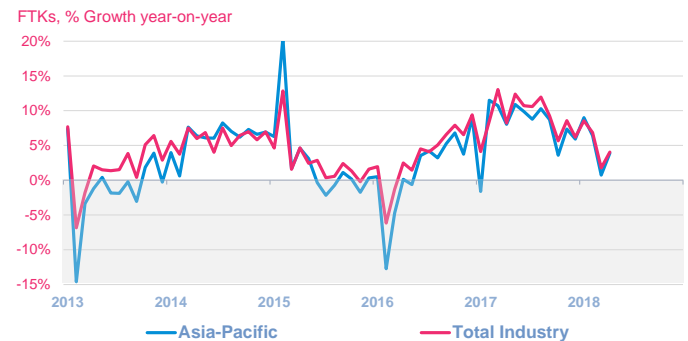
### Airline operating (EBIT) margins\*

%revenues	2016	2017	2017Q1	2018Q1
Asia Pacific	7.4	5.5	6.4	6.3
Industry	8.5	7.5	4.7	5.7

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

- ➔ Across the region's main international markets, all recorded a positive yoy FTK growth rate in Apr (although only just in the case of Asia-Europe, at 0.8%), including those that briefly posted a yoy decline last month.
- ➔ Of the larger international freight markets, Nth America & the Middle East are currently the strongest performers, growing at a rate of 5.5-6.0%yoy.

### Growth in air freight volumes



Source: IATA Statistics

carriers is broadly unchanged vs 1Q17 at 6.3%, remaining above the industry aggregate. Note that these data are not seasonally adjusted.

- ➔ Passenger yield developments across the region's key routes over the past year paint a generally positive picture. In particular, China domestic yields are up 11.7%yoy & Asia-Europe yields are up 9.6%. The main exception to the positive story is the Asia-Middle East market where yields are currently a sizeable 5% lower than their year-ago level.

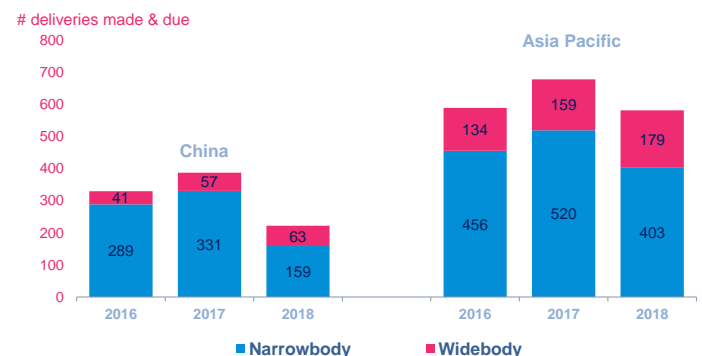
### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2017	Feb-18	Mar-18	Apr-18
China domestic	-5.2	1.6	14.9	11.7
Asia - Europe	1.9	6.0	6.4	9.6
Within Asia	-5.6	2.7	8.5	6.9
Asia - Nth America	-3.2	-1.2	-0.3	1.8
Asia - Middle East	-3.5	-2.3	-3.6	-4.9
Asia - Sth America	-4.2	0.9	5.8	5.5
Asia - Africa	-0.1	2.6	0.5	2.9

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