



# STATE OF THE REGION: NORTH ASIA

MARCH 2018

## Economy

### GDP growth, selected countries

%change on a yr ago	2016	2017Q2	2017Q3	2017Q4
China	6.7	6.9	6.9	6.9
Chinese Taipei	1.4	2.5	2.9	3.3
Hong Kong	2.1	3.9	3.7	3.4
Mongolia	1.4	6.0	6.5	3.7
Emerging Asia	6.4	--	--	--
World*	2.4	2.9	3.2	3.2

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2017	Dec-17	Jan-18	Feb-18
US\$ broad index	120.0	120.0	117.2	117.6
Chinese renminbi (CNY)	6.51	6.51	6.29	6.33
Taiwanese dollar (TWD)	29.7	29.7	29.2	29.3
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2429	2429	2415	2390

Source: Datastream, XE

### World oil and jet fuel price

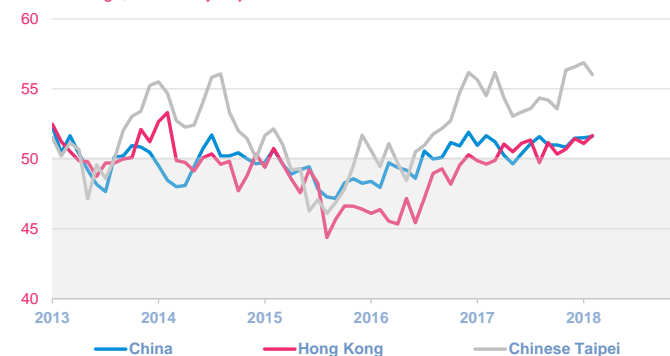
US\$/barrel (period ave.)	2017	Dec-17	Jan-18	Feb-18
Crude oil (Brent)	54.2	64.4	69.1	65.3
Jet fuel	65.6	76.3	82.0	77.7

Source: Platts, EIA Monthly average data

- ➔ Business sentiment in both China & Hong Kong edged slightly higher this month, with the latter recording its highest level in 4 years. Modest upward trends remain in place, although signs of increasing cost pressures in

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

both countries remain a key watchpoint going forward. Despite a modest fall this month, sentiment in Chinese Taipei remains elevated & well above its long-term average, supported by strong global demand.

- ➔ On a trade-weighted basis, the US\$ rose a modest 0.3% in Feb, after consecutive monthly declines. Amongst the main regional currencies, the CNY & TWD both eased by 0.6% against the US\$ this month, while the MNT gained an even 1.0%.
- ➔ Brent crude oil & jet fuel prices retraced some of their recent gains in Feb, easing by close to 5.5% in the month. However, the broader picture is that both are currently ~20% higher than their level of a year ago.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Nov-17	Dec-17	Jan-18
<b>Region (registration basis)</b>				
Asia Pacific	10.2	12.0	9.4	5.4
World	7.6	8.3	6.4	4.6
<b>Routes (segment basis)</b>				
China domestic	13.3	16.3	14.1	6.6
Asia - Europe	9.5	9.8	7.0	4.8
Within Asia	9.4	13.7	9.6	5.0
Asia - Nth America	4.9	5.4	3.3	0.3
Asia - Middle East	7.4	9.3	3.7	3.8
Asia - S/w Pacific	9.2	8.5	7.4	2.7
Asia - Africa	4.1	2.0	7.3	4.5

Source: IATA Statistics Asia-Pac incl North Asia

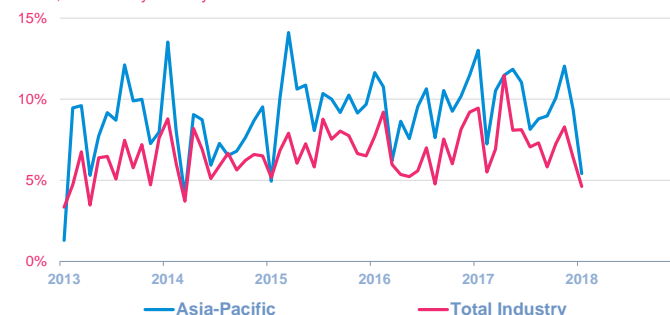
- ➔ Industry-wide RPKs grew by 4.6%yoy in Jan, down almost 2pp from Dec & its slowest pace in nearly four years. However, the later timing of Lunar New Year (LNY) appears to account for a good part of this result & a rebound could reasonably be expected next month.
- ➔ Pax volumes for the AsiaPac carriers – the region most likely to be affected by the LNY disruption – eased disproportionately, with RPK growth 4pp slower in Jan,

compared with Dec, at 5.4%yoy currently.

- ➔ Highlighting the LNY effect, China domestic RPKs eased to 6.6%yoy in Jan, down significantly from 14% in Dec & around half the rate of 2017 overall.
- ➔ Of the larger international markets for the region, Europe-Asia & Within Asia continue to be the strongest performers, with RPK growth of ~5%yoy. Asia-NthAm volumes are currently just 0.3% higher than a year ago.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Nov-17	Dec-17	Jan-18
<b>Region (registration basis)</b>				
Asia Pacific	7.8	7.4	5.1	7.7
World	9.0	8.5	5.8	8.0
<b>Routes (segment basis)</b>				
Asia - Europe	11.0	8.2	6.3	11.3
Asia - Nth America	8.8	8.0	6.4	7.5
Within Asia	12.2	11.0	8.4	12.5
Asia - Middle East	6.3	6.9	12.8	5.7
Asia - S/w Pacific	9.4	9.2	11.7	12.5
Asia - Africa	58.6	45.8	22.5	23.9

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Although mindful of the potential LNY distortions for annual air freight outcomes also at year-start, industry-wide FTKs stepped up in Jan, increasing to a robust 8.0%yoy, from 5.8% in Dec.
- ➔ AsiaPac carriers also recorded a stronger growth outcome in Jan, with FTKs currently 7.7% higher than their level of a year ago – broadly in line with the industry-wide outcome.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK	2017	Nov-17	Dec-17	Jan-18
<b>Passenger</b>				
Asia Pacific ASK	8.4	9.0	8.4	6.6
PLF	81.0	81.1	81.2	80.6
World ASK	6.4	6.4	5.8	5.3
PLF	81.5	80.4	80.8	79.6
<b>Freight</b>				
Asia Pacific AFTK	1.4	2.6	2.8	2.2
FLF	56.1	59.0	56.5	52.4
World AFTK	3.0	4.4	3.6	4.2
FLF	45.5	48.8	46.7	43.3

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

- ➔ Industry-wide, annual pax capacity grew faster than demand for the first time in 15 months in Jan. The industry-wide PLF slipped below 80%, to 79.6%, an even 1pp below that of the AsiaPac carriers this month.
- ➔ The overall industry FLF also eased somewhat in Jan, down ~3.5pp to 43.3%, & remaining almost 10pp lower than the (industry-leading) 52.4% outcome for the AsiaPac airlines
- ➔ The latest financial data for Q4 show an EBIT margin that is essentially unchanged for the region's carriers vs a year ago, at 9.4% currently. The performance of the

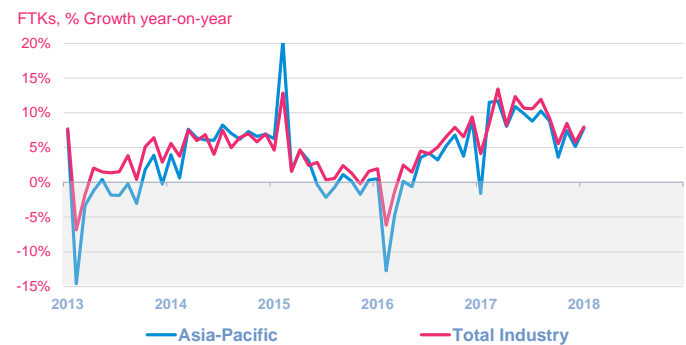
### Airline operating (EBIT) margins\*

%revenues	2015	2016	2016Q4	2017Q4
Asia Pacific	8.0	10.0	9.3	9.4
Industry	8.5	8.8	8.9	8.6

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

- ➔ Of the region's key markets, Asia-Europe & Within Asia, along with the smaller Asia-S/west Pacific & Asia-Africa, are the standout performers, all showing strong, double-digit yoy growth.
- ➔ The latter continues to be underpinned by foreign investment flows, but the yoy growth rate will likely drop away in coming months, to a more 'normal' pace due to developments in the early part of 2017.

### Growth in air freight volumes



Source: IATA Statistics

industry overall is a little softer, currently 8.6%, down, from 8.9% in Q3 2016.

- ➔ Industry-wide passenger yields continue to broadly trend sideways as they have done for more than 12 months now. For the region's key markets, however, all yields are now higher than their level of a year ago, albeit only just in the case of NthAm-Asia (+0.7%). The strongest performer is Asia-Europe where yields are now up 9.5% vs a year ago.

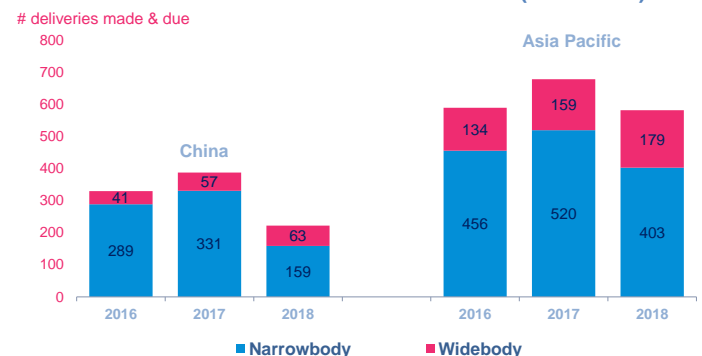
### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2016	Nov-17	Dec-17	Jan-18
China domestic	-7.6	-1.1	4.9	1.5
Asia - Europe	-10.8	6.6	7.0	9.5
Within Asia	-10.3	-2.3	0.2	1.6
Asia - Nth America	-7.3	-2.9	-3.6	0.7
Asia - Middle East	-10.7	-1.8	0.5	1.3
Asia - Sth America	-9.2	-4.0	3.7	2.8
Asia - Africa	-8.9	2.3	7.4	2.8

Source: IATA PaxIS

Note: historical data may be subject to revision

### Aircraft deliveries to China & the Asia Pacific (1Q18 data)



Source: Ascend

Note: Asia-Pac incl North Asia