



# STATE OF THE REGION: NORTH ASIA

MAY 2017

## Economy

### GDP growth, selected countries

%change on a yr ago	2015	2016Q3	2016Q4	2017Q1
China	7.0	6.7	6.7	6.9
Chinese Taipei	0.7	2.4	2.8	--
Hong Kong	2.4	2.0	3.2	4.3
Mongolia	2.5	-7.3	9.8	--
Emerging Asia	6.6	--	--	--
<b>World*</b>	<b>2.4</b>	<b>2.2</b>	<b>2.5</b>	<b>2.6</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2016	Feb-17	Mar-17	Apr-17
US\$ broad index	127.7	125.8	125.3	124.3
Chinese renminbi (CNY)	6.96	6.87	6.89	6.89
Taiwanese dollar (TWD)	32.3	30.6	30.4	30.2
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2468	2446	2417

Source: Datastream, XE

### World oil and jet fuel price

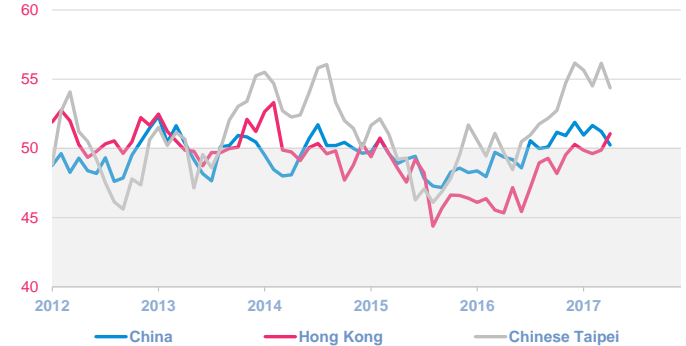
US\$/barrel	2016	Feb-17	Mar-17	Apr-17
Crude oil (Brent)	52.4	54.9	51.6	52.3
Jet fuel	64.0	65.0	60.7	63.4

Source: Platts, EIA Monthly average data

→ Business confidence in Hong Kong lifted again this month, pushing clear of the key 50 index level for the first time in more than two years, supported by further

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

signs of an improvement in economic activity. Sentiment eased in both China & Chinese Taipei, with the contrasting views of businesses towards the outlook clearly evidenced by the divergence in the level of the respective indices.

- The US\$ eased further on a trade-weighted basis in April, down 0.7%. Amongst the main regional currencies, the MNT gained further ground this month, rising by 1.2% vs the US\$ in the month.
- Brent crude oil & jet fuel prices ended the month higher (the latter up a sizeable 4.5%), buoyed by statements of support from Russia & Saudi Arabia to extend the production cuts.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Jan-17	Feb-17	Mar-17
<b>Region (registration basis)</b>				
Asia Pacific	9.1	12.7	6.6	10.7
World	6.3	9.0	4.9	6.8
<b>Routes (segment basis)</b>				
China domestic	11.7	18.5	9.8	15.1
Asia - Europe	1.8	6.9	7.8	9.5
Within Asia	7.3	8.4	3.5	6.5
Asia - Nth America	6.4	7.5	2.2	5.7
Asia - Middle East	9.0	9.8	5.4	4.2
Asia - S/w Pacific	3.8	7.5	3.5	5.2
Asia - Africa	6.8	2.1	1.3	3.5

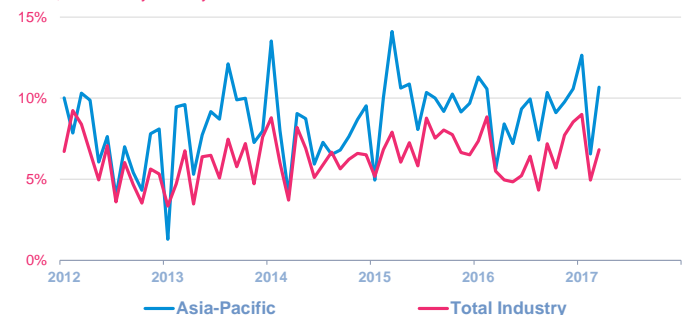
Source: IATA Statistics Asia-Pac incl North Asia

- Growth in global RPKs retraced some of last month's fall, recovering to be 6.8% higher yoy in Mar. This completes a robust first quarter – industry-wide RPKs were 7.0% higher than in the same period a year ago, well ahead of the long-run average rate of ~5.5%.
- At the regional level, RPK growth for the Asia-Pac carriers also bounced back in Mar, returning to a strong, double-digit pace of 10.7%yoy.

- RPK growth for the China domestic market recovered to 15.1%yoy in Mar, posting the fastest rate – across the key domestic markets that we monitor – for the first time in two years. The market expansion continues apace, with the number of routes flown within China scheduled to increase by 6% this year, accompanied by a 3% increase in average flight frequencies.
- Amongst the large international markets, Asia-Europe remains the strongest performer, with RPK growth of 9.5%yoy, followed by Within Asia at 6.5%.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Jan-17	Feb-17	Mar-17
<b>Region (registration basis)</b>				
Asia Pacific	2.1	4.6	11.7	13.6
World	3.8	6.2	8.4	14.0
<b>Routes (segment basis)</b>				
Asia - Europe	3.9	9.2	10.6	19.5
Asia - Nth America	-1.2	6.3	8.4	12.3
Within Asia	7.0	8.7	20.5	15.8
Asia - Middle East	3.7	-0.8	-6.5	9.2
Asia - S/w Pacific	1.1	-8.6	3.6	5.2
Asia - Africa	30.1	48.4	34.9	74.4

Source: IATA Statistics Asia-Pac incl North Asia

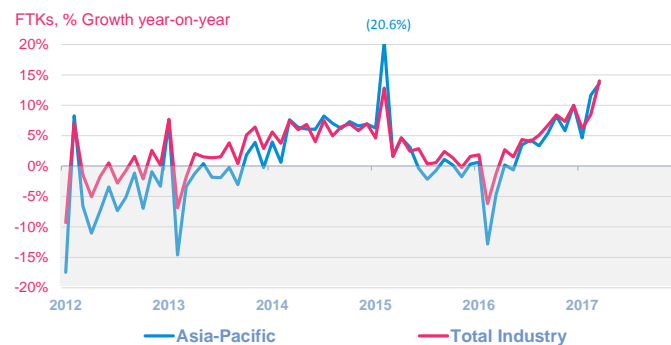
→ Global FTKs grew by 14.0%yoy in Mar – the fastest pace since Oct 2010. For Q1 overall, freight volumes rose almost 10% on the same period last year.

→ At the regional level, FTK growth also accelerated, albeit more modestly than the industry rate, rising to 13.6%yoy. The healthy recent performance in air freight markets is clearly evident in the Asia-Pac figures – the largest region in terms of international FTKs flown.

→ Exporters across much of the region continue to report healthy order books & double-digit freight volume growth is evident on most key markets.

→ Of the largest markets, Asia-Europe FTKs are up ~20%yoy, followed by Within Asia (15.8%) & Asia-NthAm (12.3%). Also notable this month was the return to positive yoy growth for the Asia-Middle East market, now up a robust 9.2%.

### 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	Jan-17	Feb-17	Mar-17
<b>Passenger</b>					
Asia Pacific	ASK	8.1	9.5	3.6	8.0
	PLF	79.6	81.5	81.5	80.7
World	ASK	6.3	7.3	2.8	6.1
	PLF	80.5	80.3	79.5	80.4
<b>Freight</b>					
Asia Pacific	AFTK	3.6	5.1	1.5	4.8
	FLF	52.8	49.5	49.5	57.0
World	AFTK	5.3	3.3	0.1	4.2
	FLF	43.0	41.9	43.4	47.4

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

→ Both pax & freight capacity growth by the Asia-Pac carriers continues to exceed that of the overall industry. Asia-Pac carrier ASKs are up 8.0% & AFTKs are up 4.8% on their year-ago levels, compared with 6.1% & 4.2%, respectively, for the industry.

→ The outperformance of the Asia-Pac load factors over the industry-wide outcomes has also been maintained this month. A PLF of 80.7% for the region's carriers (vs the 80.4% industry figure) & a FLF of 57.0% (vs 47.4%).

→ The initial Q1 data show softer EBIT margin outcomes at both the region & industry level. For the Asia-Pac

### Airline operating (EBIT) margins\*

%revenues	2015	2016	2016Q1	2017Q1
Asia Pacific	8.0	10.0	5.7	2.1
Industry	8.5	8.8	9.6	4.8

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

carriers the 2.1% margin is down from 5.7% a year ago & is below that of the industry which has, in turn, halved from 9.6% to 4.8% currently.

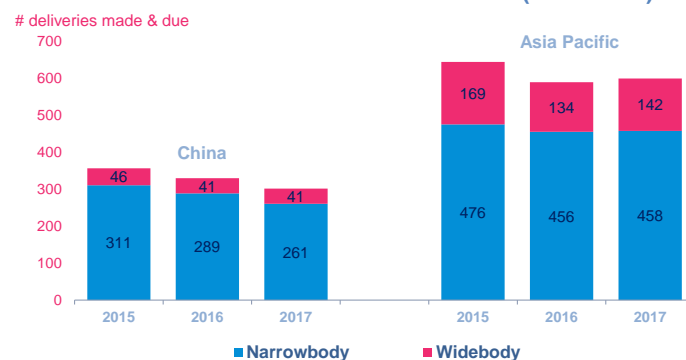
→ Despite being 8-9%yoy lower, global average pax yields continue to show tentative indications of having possibly bottomed. At the regional level, yoy yields have clearly narrowed in almost all markets (China domestic being the main exception) & have now risen (if only slightly) for the Asia-Europe market, up 0.6%yoy.

### Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Jan-17	Feb-17	Mar-17
China domestic	-7.4	-8.6	-6.7	-10.9
Asia - Europe	-10.3	-8.5	-3.7	0.6
Within Asia	-10.0	-9.2	-7.8	-7.7
Asia - Nth America	-7.2	-5.3	-2.3	-0.7
Asia - Middle East	-10.5	-15.5	-11.6	-7.6
Asia - Sth America	-9.1	-10.7	-8.8	-6.4
Asia - Africa	-8.8	-7.3	-3.0	-0.5

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia