



STATE OF THE REGION: NORTH ASIA

MAY 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	--
Hong Kong	3.8	3.6	3.4	4.7
Mongolia	5.1	6.5	3.7	6.0
Emerging Asia	6.5	--	--	--
World*	3.1	3.2	3.2	3.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Feb-18	Mar-18	Apr-18
US\$ broad index	120.0	117.6	118.1	118.2
Chinese renminbi (CNY)	6.51	6.33	6.29	6.33
Taiwanese dollar (TWD)	29.7	29.3	29.1	29.6
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2429	2390	2388	2394

Source: Datastream, XE

World oil and jet fuel price

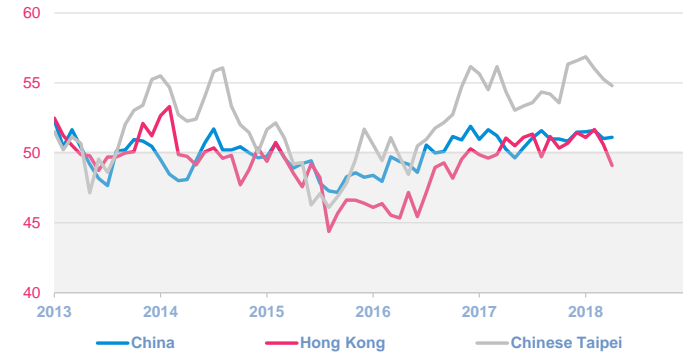
US\$/barrel (period ave.)	2017	Feb-18	Mar-18	Apr-18
Crude oil (Brent)	54.2	65.3	66.0	72.1
Jet fuel	65.6	77.7	78.0	84.6

Source: Platts, EIA Monthly average data

- Business sentiment in China ticked marginally higher this month, maintaining the broadly sideways trend observed in recent months. Businesses reported signs of

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



softer export demand, but this was offset by continued domestic demand. Businesses in Chinese Taipei & Hong Kong were more sensitive to signs of moderating export demand, with both confidence indices falling this month.

- On a trade-weighted basis, the US\$ was essentially unchanged in April. Amongst the main regional currencies, the TWD fell by 1.6% vs the US\$ this month & the CNY was down 0.7%.
- Brent crude oil & jet fuel prices both surged this month, gaining more than US\$6/bbl & moving to their highest levels since 2014. Heightened geopolitical risks, along with supply tightening were the key price drivers in April.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Jan-18	Feb-18	Mar-18
Region (registration basis)				
Asia Pacific	10.2	4.9	10.2	12.0
World	7.6	4.5	7.7	9.5
Routes (segment basis)				
China domestic	13.4	5.9	11.8	15.0
Asia - Europe	9.5	4.8	7.1	8.8
Within Asia	11.2	4.4	8.5	12.2
Asia - Nth America	4.9	0.8	7.8	10.5
Asia - Middle East	7.3	3.4	5.7	9.3
Asia - S/w Pacific	9.2	3.3	8.8	11.9
Asia - Africa	4.1	4.2	13.3	12.7

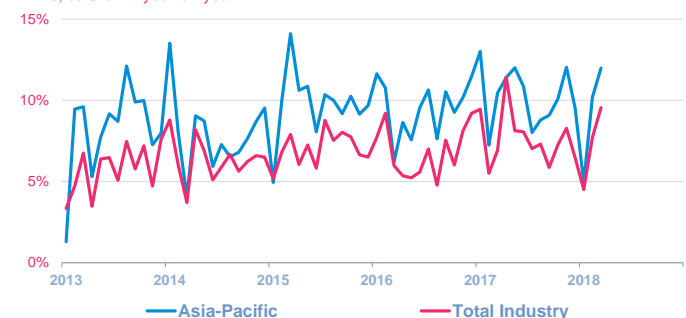
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide RPK growth lifted again this month, building on last month's healthy rebound. Passenger volumes are 9.5% higher in March compared with their level of a year ago – the fastest rate of growth in a year & well above the 5-year average pace.
- Pax volumes for the AsiaPac carriers also lifted this month, to an even 12.0%yoy pace, maintaining the positive gap above the industry-wide rate of growth.

- Growth in pax volumes for the China domestic market also lifted in March to a brisk 15.0%yoy; the highest growth rate in five months. While trade tensions with the US pose risks to economic activity, China's services sector continues to grow strongly, helping to support ongoing increases in air passenger demand.
- With the exception of a modest easing for Asia-Africa RPK growth rates lifted across each of the region's larger international markets this month, with a number now recording a double-digit pace.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Jan-18	Feb-18	Mar-18
Region (registration basis)				
Asia Pacific	7.8	9.0	5.8	0.7
World	9.1	8.5	6.7	1.7
Routes (segment basis)				
Asia - Europe	11.0	11.0	8.7	-1.0
Asia - Nth America	8.7	7.7	7.5	2.5
Within Asia	13.0	11.9	4.6	2.7
Asia - Middle East	6.3	5.9	11.6	-0.6
Asia - S/w Pacific	9.4	14.9	0.6	-3.5
Asia - Africa	58.6	24.3	19.9	-4.9

Source: IATA Statistics Asia-Pac incl North Asia

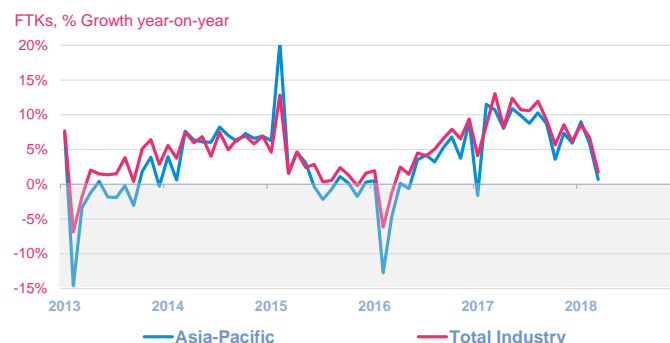
→ After a robust start to the year, the industry-wide FTK growth rate slowed to just 1.7%yoy in March. For Q1 overall, freight volumes are up 5.4%yoy, but a softening in the seasonally adjusted trend has become more apparent in recent months.

→ A similar pattern is evident this month at the regional level where FTK growth eased sharply, to a modest 0.7%yoy. Given that Asia Pacific is the largest region for

air freight (accounting for ~37% of total global FTKs) the impact on the global aggregate outcome is considerable.

→ The annual rate of growth slowed across all of the region's main international markets this month. Perhaps most notable is the largest Asia-Europe market where freight volumes are currently 1.0% lower than their level of a year ago. Volumes have also fallen for the (smaller) Africa, Middle East & S/west Pacific markets.

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	Jan-18	Feb-18	Mar-18
Passenger				
Asia Pacific ASK	8.4	6.3	9.1	9.1
Asia Pacific PLF	81.0	80.5	82.3	82.3
World ASK	6.3	5.2	6.3	6.4
World PLF	81.5	79.6	80.6	82.4
Freight				
Asia Pacific AFTK	1.4	2.2	6.9	4.6
Asia Pacific FLF	56.1	53.0	51.1	56.1
World AFTK	3.0	5.4	6.3	4.4
World FLF	45.5	43.0	44.0	46.4

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 (9.1%yoy vs 6.4%). Even so, the latest pax load factor data are broadly in line, above 82%.

→ On the freight side, the region's airlines have grown AFTKs only slightly quicker than the industry overall (4.6% vs 4.4%yoy). The region's freight load factor outcomes set the industry benchmark, increasing by 5pp from last month to 56%, ~10pp above the industry figure.

→ The initial data for Q1 point to a modest improvement in the EBIT margin, at both the regional and industry level compared with a year ago. The margin for the AsiaPac

carriers lifted to 9.9% in Q1 2018, around 3pp above the industry aggregate figure of 6.8%. Note that these data are not seasonally adjusted.

→ Broadly speaking, the passenger yields (US\$ terms) amongst the region's key markets continue to show signs of further gradual improvement. China domestic yields are up 14.9%yoy, followed by Within Asia (8.5%yoy) to be the strongest performers this month. Yields are still lower compared with a year ago for the Asia-NthAm & Asia-Middle East markets.

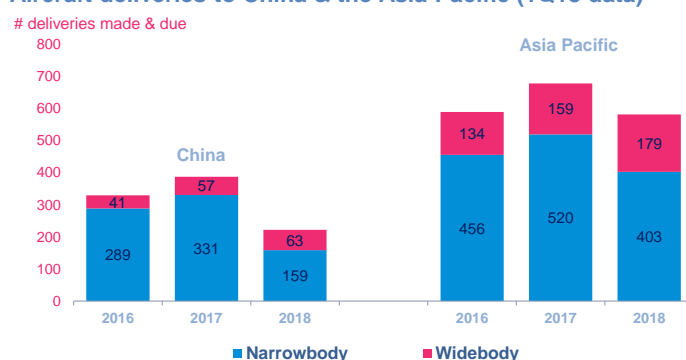
Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2016	Jan-18	Feb-18	Mar-18
China domestic	-7.6	1.5	1.6	14.9
Asia - Europe	-10.8	9.5	6.0	6.4
Within Asia	-10.3	1.6	2.7	8.5
Asia - Nth America	-7.3	0.7	-1.2	-0.3
Asia - Middle East	-10.7	1.3	-2.3	-3.6
Asia - Sth America	-9.2	2.8	0.9	5.8
Asia - Africa	-8.9	2.8	2.6	0.5

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

Airline operating (EBIT) margins*

%revenues	2015	2016	2017Q1	2018Q1
Asia Pacific	8.0	10.0	9.4	9.9
Industry	8.5	8.8	6.5	6.8

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