

State of the region: North Asia

May 2019

Economy

GDP growth, selected countries

| % change on a yr ago | 2018 | Q3 2018 | Q4 2018 | Q1 2019 |
|----------------------|------------|------------|------------|------------|
| China | 6.6 | 6.5 | 6.4 | 6.4 |
| Chinese Taipei | 2.6 | 2.3 | 1.8 | 1.7 |
| Hong Kong | 3.0 | 2.8 | 1.2 | 0.6 |
| Mongolia | 6.7 | 6.6 | 7.7 | -- |
| Emerging Asia | 6.5 | -- | -- | -- |
| World* | 3.2 | 3.1 | 2.9 | 2.9 |

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

| end of period, # per US\$ | 2018 | Feb-19 | Mar-19 | Apr-19 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 128.5 | 126.8 | 127.2 | 127.4 |
| Chinese renminbi (CNY) | 6.9 | 6.7 | 6.7 | 6.7 |
| Taiwanese dollar (TWD) | 30.7 | 30.8 | 30.8 | 30.9 |
| Hong Kong dollar (HKD) | 7.8 | 7.8 | 7.8 | 7.8 |
| Mongolian tugrik (MNT) | 2640 | 2634 | 2630 | 2649 |

Source: Datastream

World oil and jet fuel price

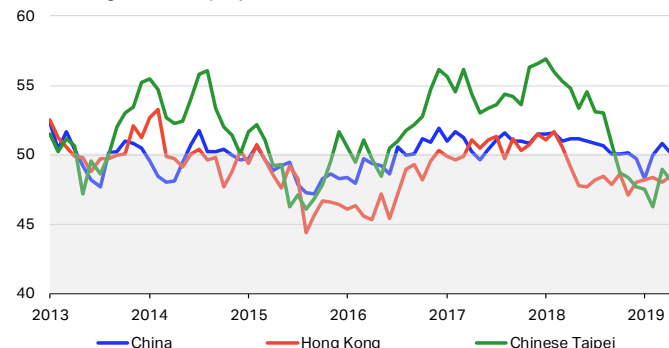
| US\$/barrel (period ave.) | 2018 | Feb-19 | Mar-19 | Apr-19 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 71.7 | 64.4 | 66.9 | 71.5 |
| Jet fuel | 86.4 | 80.1 | 81.1 | 84.2 |

Source: Platts, Datastream (monthly average data)

- The Chinese economy exceeded expectations, to grow by 6.4%yoy in Q1 2019, supported by solid consumer spending and industrial production. Despite this outcome, business confidence eased modestly in April.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- In Hong Kong, challenges stemming from the US-China trade war and weaker demand conditions resulted in faltering business confidence and the lowest Q1 GDP growth since 2009. Confidence remains subdued in Chinese Taipei, at levels indicating slower activity for seven consecutive months.
- On a trade-weighted basis, the US\$ rose by 0.1% in April, marking the 3rd consecutive month of modest growth. The MNT ended the month down by 0.7% vs the US\$, while the other FX movements were muted.
- Oil and jet fuel prices remain under upward pressure amidst fears of supply disruption augmented by heightened tensions in the Middle East.

Market

Revenue passenger kilometers (RPKs)

| % change on a yr ago | 2018 | Jan-19 | Feb-19 | Mar-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 8.4 | 8.5 | 5.9 | 1.9 |
| World | 6.5 | 6.2 | 5.1 | 3.1 |
| Routes (segment basis) | | | | |
| China domestic | 11.8 | 14.5 | 11.4 | 2.9 |
| Asia - Europe | 7.0 | 8.8 | 5.5 | 4.3 |
| Within Asia | 8.4 | 8.5 | 4.2 | 4.0 |
| Asia - Nth America | 3.9 | 6.3 | -0.5 | -0.6 |
| Asia - Middle East | 4.4 | 0.7 | 1.3 | 0.6 |
| Asia - S/w Pacific | 7.2 | 9.5 | 5.8 | 1.9 |
| Asia - Africa | 9.4 | 11.6 | -1.1 | -0.1 |

Source: IATA Statistics Asia-Pac incl North Asia

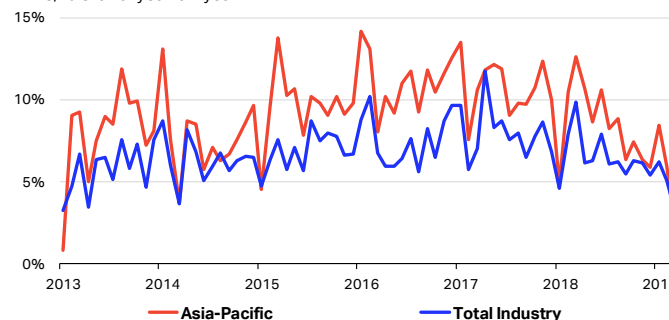
- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) eased to 3.1%; the weakest annual outcome since early-2010. Having said that, this month's result was impacted by the earlier timing of the 2018 Easter holiday period, which boosted demand in March last year.
- The growth in Asia Pacific eased for a second consecutive month and was the weakest in six years or so. That said, the slowdown was not enough to disrupt

a modest upward trend in seasonally adjusted RPKs.

- Growth in domestic China slowed this month to 3%yoy, the weakest performance since early 2015. That said, this month's year-on-year growth was impacted by a strong outcome in March 2018.
- Of the key international markets, the larger Asia-Europe was the strongest performer this month, although the 4.3% growth was the weakest for the market in more than two years. The Within Asia market followed, with volumes up 4.0% vs 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 | 2018 | Jan-19 | Feb-19 | Mar-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 2.3 | -4.8 | -12.0 | -3.4 |
| World | 3.8 | -1.6 | -4.9 | 0.1 |
| Routes (segment basis) | | | | |
| Asia - Europe | 1.1 | -4.5 | -6.5 | 1.6 |
| Asia - Nth America | 3.7 | -3.7 | -7.5 | -1.1 |
| Within Asia | 0.6 | -5.8 | -15.5 | -10.9 |
| Asia - Middle East | 4.8 | 1.5 | -4.0 | 4.7 |
| Asia - S/w Pacific | 3.0 | 1.3 | -5.9 | -4.2 |
| Asia - Africa | -4.0 | -4.3 | -22.0 | 4.9 |

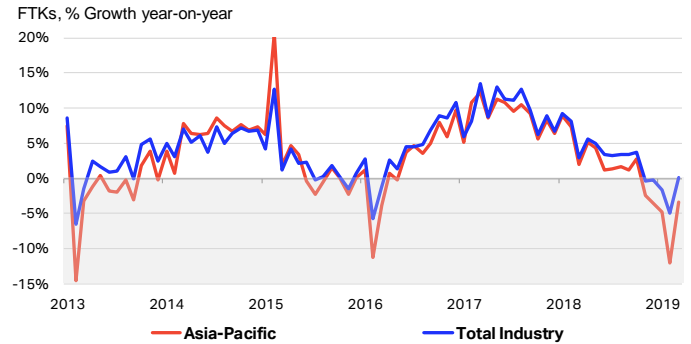
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide FTK growth returned to positive territory in March, albeit only just. FTKs were up 0.1% vs their level a year ago, following a fall of 4.9%yoy in Feb. Given the data volatility early in the year, and based on fundamentals, we suspect this gain may be shortlived.
- Despite a sizeable improvement in March, FTKs flown by Asia Pacific carriers were still 3.4% lower than in March 2018. The FTK growth outcomes reflect various factors, notably the sharp unwind in global trade activity as well as indications of a broad-based slowing

in global economic activity.

- The FTK growth performance was mixed on the larger international markets. While Asia-Europe recovered from 4-month-long run of negative (yoy) growth, the other two larger markets (Asia-NthAm & Within Asia) continued to see volumes falling vs a year ago.
- Growth in FTKs returned to a positive territory on two of the three smaller international markets in the region, most notably with a sharp rebound for Asia-Africa.

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 | | 2018 | Jan-19 | Feb-19 | Mar-19 |
|---|------|------|--------|--------|--------|
| Passenger | | | | | |
| Asia Pacific | ASK | 7.8 | 7.4 | 5.5 | 3.5 |
| | PLF | 81.5 | 81.1 | 82.5 | 81.2 |
| World | ASK | 6.1 | 6.2 | 5.3 | 4.2 |
| | PLF | 81.9 | 79.6 | 80.5 | 81.7 |
| Freight | | | | | |
| Asia Pacific | AFTK | 5.0 | 3.4 | 1.6 | -1.0 |
| | FLF | 55.7 | 49.8 | 44.6 | 55.6 |
| World | AFTK | 5.3 | 3.7 | 2.9 | 3.1 |
| | FLF | 49.2 | 45.3 | 44.5 | 49.5 |

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

- At 81.7%, the industry-wide passenger load factor (PLF) was down 0.9ppt from its record high March 2018 but remained elevated in historical terms. For freight, the load factor (FLF) increased to 49.5%, slightly above its average for 2018 overall.
- While the PLF eased modestly for Asia Pacific to 81.2%, the FLF performed strongly this month, outpacing the industry-wide outcome by 6ppt.
- The initial financial data from Q1 2019 point to a moderate decline in industry profitability relative to the same period a year ago; the EBIT margin fell to 3.6%, from 4.1% in Q1 2018. At the regional level, the EBIT

margin lifted to 5% of revenues, a 2.3ppt improvement vs the same quarter a year ago.

- Growth in pax yields was negative on the majority of the key domestic and international routes in the region as airlines struggle to recover rising operating costs. China domestic was the notable underperformer this month, with yields down 11.5% vs a year ago.

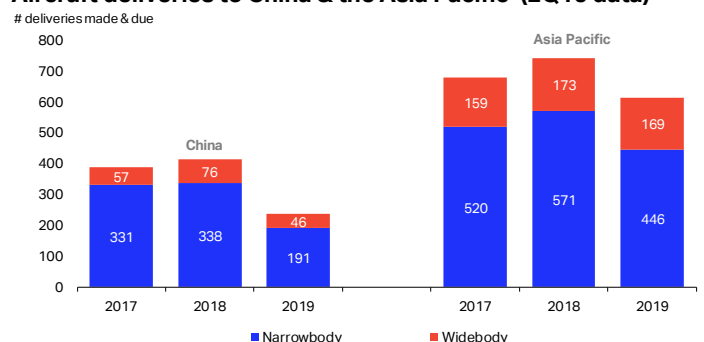
Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago | 2018 | Jan-19 | Feb-19 | Mar-19 |
|----------------------|------|--------|--------|--------|
| China domestic | 0.1 | -2.2 | -13.0 | -11.5 |
| Asia - Europe | -1.9 | -3.6 | -9.7 | -9.8 |
| Within Asia | -1.8 | -2.2 | -9.0 | -9.5 |
| Asia - Nth America | -2.7 | 5.2 | -4.3 | -2.4 |
| Asia - Middle East | -1.5 | 3.2 | 3.1 | 6.8 |
| Asia - Sth America | 0.7 | -7.6 | -9.5 | -9.7 |
| Asia - Africa | 0.8 | -2.5 | -6.2 | -7.3 |

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data show a reduction in the number of jet aircraft deliveries to both Asia Pacific and Chinese airlines in 2019 vs 2018.

Aircraft deliveries to China & the Asia Pacific (2Q19 data)



Source: Ascend

Note: Asia-Pac incl North Asia

Airline operating (EBIT) margins*

| % revenues | 2016 | 2017 | 2018Q1 | 2019Q1 |
|--------------|------|------|--------|--------|
| Asia Pacific | 7.4 | 6.7 | 2.7 | 5.0 |
| Industry | 8.5 | 7.7 | 4.1 | 3.6 |

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