

State of the region: North Asia

May 2020

Economy

GDP growth, selected economies

% change on a yr ago	2019	Q3 2019	Q4 2019	Q1 2020
People's Republic of China	6.1	6.0	6.0	-6.8
Chinese Taipei	2.7	2.8	3.6	1.9
Hong Kong (SAR), China	-1.2	-2.8	-3.0	-8.9
Mongolia	4.9	4.2	1.8	-10.5
Emerging Asia	5.5	--	--	--
World*	2.6	2.6	2.5	-1.7

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2019	Feb-20	Mar-20	Apr-20
US\$ broad index	114.7	117.8	122.8	122.7
Chinese renminbi (CNY)	6.96	6.99	7.08	7.08
Taiwanese dollar (TWD)	30.0	30.3	30.2	29.7
Hong Kong dollar (HKD)	7.79	7.79	7.75	7.75
Mongolian tugrik (MNT)	2740	2755	2775	2788

Source: Datastream

World oil and jet fuel price

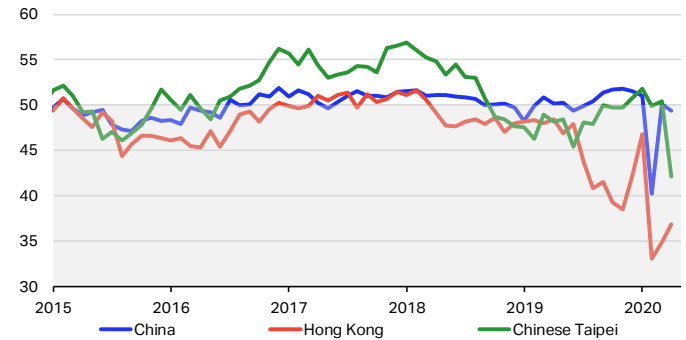
US\$/barrel (period ave.)	2019	Feb-20	Mar-20	Apr-20
Crude oil (Brent)	64.2	55.7	33.9	26.8
Jet fuel	79.6	65.1	40.1	23.1

Source: Platts, Datastream (monthly average data)

- Business sentiment in China eased back into territory associated with contraction as falling global demand and disrupted supply chains offset the positive impact of lockdown easing in the country.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- Operating conditions deteriorated sharply in Chinese Taipei and remained under significant pressure also in Hong Kong amidst factory closures and other restrictions linked to COVID-19.
- Trade weighted US\$ index moved sideways in April, after a 4.3% gain in the previous month. Of the key regional currencies, the TWD ended the month up 1.7% against the US\$. Other FX movements were muted on this occasion.
- Jet and crude oil price fell further in April, reflecting plummeting global fuel consumption and widespread concerns about the global economic outlook.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2019	Jan-20	Feb-20	Mar-20
Region (registration basis)				
Asia Pacific	4.8	0.5	-41.7	-59.9
World	4.2	2.2	-14.4	-52.9
Routes (segment basis)				
China domestic	8.0	-6.8	-84.8	-65.5
Asia - Europe	6.6	4.5	-20.4	-64.0
Within Asia	6.4	4.6	-41.2	-77.8
Asia - Nth America	2.0	2.9	-31.4	-71.5
Asia - Middle East	3.5	5.2	-6.0	-51.9
Asia - S/w Pacific	6.0	3.6	-27.8	-59.2
Asia - Africa	5.0	4.3	-34.2	-64.7

Source: IATA Statistics Asia-Pac incl North Asia

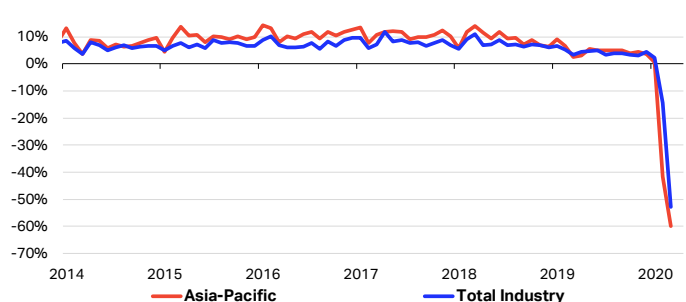
- Industry-wide revenue passenger kilometres (RPKs) fell by an unprecedented 52.9% year-on-year in March, as the spread of the virus and related containment measures accelerated in most parts of the world.
- Asia Pacific remained the most impacted region in March, with a 60% annual drop in RPKs – almost 20ppts faster rate of decline compared to February. While all of the key regional routes were heavily impacted, the

pace of the fall was particularly harsh for the major Within Asia market (8.2% of total global RPKs) where volumes fell by almost 80%yoy.

- Domestic RPKs flown by Chinese carriers shrank by more than 65%yoy – the worst performance amongst the key domestic markets. However, March's contraction was still about 20ppts less significant compared to Feb since airlines in the country have begun to resume their domestic operations.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Cargo tonne kilometers (CTKs)

% change on a yr ago	2019	Jan-20	Feb-20	Mar-20
Region (registration basis)				
Asia Pacific	-5.6	-7.4	-1.8	-18.3
World	-3.2	-4.5	-1.7	-15.2
Routes (segment basis)				
Asia - Europe	-1.6	-2.9	-6.3	-16.2
Asia - Nth America	-3.7	-2.8	-1.6	-6.8
Within Asia	-7.4	-9.1	11.0	-17.6
Asia - Middle East	-2.7	-1.7	2.6	-16.9
Asia - S/w Pacific	-5.2	-13.0	0.6	-22.8
Asia - Africa	12.0	2.2	7.6	8.6

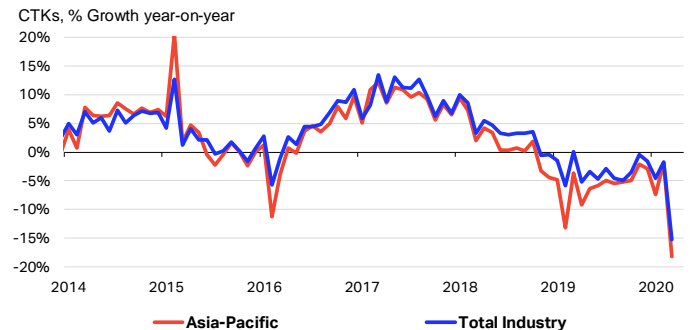
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide cargo tonne kilometres (CTKs) contracted by 15.2%yoy in March – the worst outcome since 2009. Air cargo business was impacted to a lesser extent than the passenger side due to its crucial role in keeping global supply chains functioning.
- CTKs flown by Asia Pacific carriers contracted by 18.3% year-on-year in March, which represents a sharp

deterioration from -1.8% outcome observed in Feb. The performance reflects falling global demand and challenging operating conditions that adversely impacted trade flows in the region.

- Most of the region's key markets posted a double-digit contraction in air cargo volumes. The key underperformer this month was the smaller Asia-S/w Pacific market with CTKs down by 22.8%yoy.

Growth in air cargo volumes



Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago, LF: % of ASK/ACTK		2019	Jan-20	Feb-20	Mar-20
Passenger					
Asia Pacific	ASK	4.5	2.3	-28.9	-44.4
	PLF	81.9	79.9	67.9	58.9
World	ASK	3.4	1.7	-9.0	-36.2
	PLF	82.6	80.1	75.9	60.6
Cargo					
Asia Pacific	ACTK	1.0	-1.2	-17.8	-30.9
	CLF	52.3	47.2	54.6	65.6
World	ACTK	2.2	0.5	-5.1	-22.7
	CLF	46.7	44.6	46.5	54.5

Source: IATA Statistics. Asia-Pac incl North Asia. LF= load factor. ASK=available seat kms. ACTK=available cargo tonne kms.

- Despite large-scale flight cancellations and aircraft groundings, RPKs continued to decline faster than ASKs. As a result, the industry-wide passenger load factor fell by 21.4ppts yoy. Asia Pacific carriers saw PLF down ~23ppts – the largest fall of all regions.
- By contrast, air cargo load factor picked up both at the industry (+4.8ppts) and at the regional level (+10.2ppts) as capacity fell faster than demand amidst significant reductions in bellyhold capacity.
- Despite strict mitigation measures and cost reductions to limit the impact of COVID-19, the industry-wide EBIT margin turned negative at -10.5% of revenues in Q1 2020. As the first region to be affected by the

Airline operating (EBIT) margins*

% revenues	2018	2019E	2019Q1	2020Q1
Asia Pacific	4.7	3.5	8.2	-21.5
Industry	5.7	5.1	5.9	-10.5

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

virus, Asia Pacific airlines posted the largest fall in Q1 profitability, with a margin of -21.5%.

- Passenger yields declined across all key regional markets amidst collapsing air travel demand and falling load factors. The contraction was the most significant on Chinese domestic routes (-30%yoy) but yields sharply declined also in Within Asia and Asia–Europe markets, down 22.4% and 18.6%, respectively.

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

% change on a yr ago	2019	Jan-20	Feb-20	Mar-20
China domestic	-6.1	8.7	-13.8	-29.9
Asia - Europe	-7.7	-2.1	-5.7	-18.6
Within Asia	-4.5	3.7	-17.2	-22.4
Asia - Nth America	-2.6	3.9	3.9	-11.2
Asia - Middle East	7.7	6.0	-0.2	-9.6
Asia - Sth America	-7.8	-2.0	-4.9	-13.5
Asia - Africa	-5.8	3.1	-1.7	-1.0

Source: DDS Note: historical data may be subject to revision

- The latest data point to a fall in the number of jet aircraft deliveries scheduled for both Chinese and the Asia Pacific airlines in 2020 compared to 2019.

Aircraft deliveries to China & the Asia Pacific (as of May 2020)

