



STATE OF THE REGION: NORTH ASIA

NOVEMBER 2017

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q1	2017Q2	2017Q3
China	6.7	6.9	6.9	6.9
Chinese Taipei	1.5	2.3	2.1	--
Hong Kong	2.0	4.3	3.9	3.6
Mongolia	1.4	4.1	6.0	--
Emerging Asia	6.4	--	--	--
World*	2.3	2.6	2.8	2.8

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Aug-17	Sep-17	Oct-17
US\$ broad index	127.7	119.3	118.1	120.2
Chinese renminbi (CNY)	6.96	6.59	6.65	6.64
Taiwanese dollar (TWD)	32.3	30.1	30.4	30.1
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2429	2463	2455

Source: Datastream, XE

World oil and jet fuel price

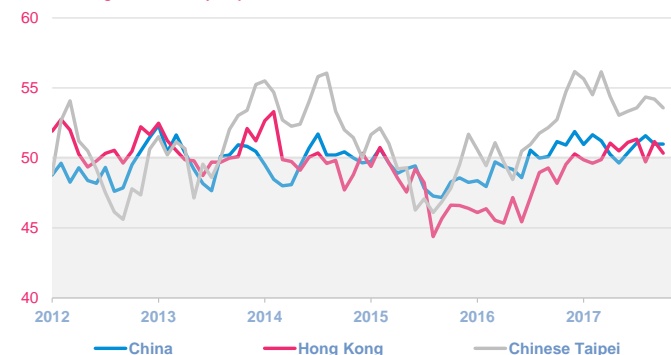
US\$/barrel	2016	Aug-17	Sep-17	Oct-17
Crude oil (Brent)	52.4	51.7	56.2	57.3
Jet fuel	64.0	65.6	75.6	69.6

Source: Platts, EIA Monthly average data

- Business sentiment was unchanged this month in China but ticked lower in both Hong Kong & Chinese Taipei.
- In China, modest increases in production & new orders supported confidence, although businesses remain cautious about the year ahead. In Hong Kong, an easing

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

in demand from the mainland, combined with input cost pressures negatively impacted confidence. In Chinese Taipei, sentiment remains elevated, but slipped a little lower on signs of softer demand conditions.

- On a trade-weighted basis, the US\$ reversed some of its recent decline in Oct, rising by 1.8%. Of the main regional currencies, movements were relatively modest this month – the TWD gained 0.7% & the CNY & MNT were both up 0.3% against the US\$.
- Brent crude oil prices moved above US\$60/bbl in Oct to average \$57.30 for the month. Jet fuel retraced some of its Sep surge, falling \$6 to average \$69.60 & narrowing the crack spread substantially. Tensions between Saudi Arabia & Iran continue to weigh on the market.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Jul-17	Aug-17	Sep-17
Region (registration basis)				
Asia Pacific	9.5	8.1	8.9	8.7
World	6.7	7.0	7.3	5.7
Routes (segment basis)				
China domestic	11.7	12.4	8.8	10.1
Asia - Europe	1.8	6.5	5.4	7.1
Within Asia	9.2	6.0	9.4	9.1
Asia - Nth America	9.6	3.8	4.6	1.5
Asia - Middle East	9.3	7.1	8.3	4.9
Asia - S/w Pacific	4.0	8.5	9.8	7.5
Asia - Africa	6.8	5.1	2.4	3.2

Source: IATA Statistics Asia-Pac incl North Asia

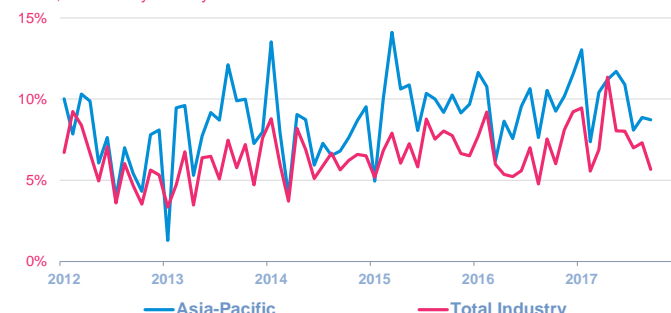
- Industry-wide RPKs grew by a solid 5.7%yoy in Sep, easing somewhat from the pace of recent months but adversely impacted by hurricane-related disruption in a number of markets, notably the US. We would expect this impact to be temporary & unwound next month.
- Growth in pax volumes for the AsiaPac carriers was broadly unchanged this month, at a robust 8.7%yoy.

AsiaPac remains the fastest growing region.

- China domestic RPK growth returned to a double-digit pace in Sep, up 10.1% on a year ago. Signs of a moderation in the (seas-adj) trend in this market will be closely monitored in coming months.
- Of the larger international markets, Within Asia is showing the strongest growth, with RPKs up 9.1%yoy currently, followed by Asia-S/west Pacific & Asia-Europe at 7.5 & 7.1%yoy, respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Jul-17	Aug-17	Sep-17
Region (registration basis)				
Asia Pacific	1.7	9.0	10.4	9.3
World	3.7	10.3	11.6	9.2
Routes (segment basis)				
Asia - Europe	3.9	11.1	11.8	8.6
Asia - Nth America	0.2	9.7	10.4	8.6
Within Asia	6.6	15.3	15.2	14.7
Asia - Middle East	3.7	9.6	14.3	10.6
Asia - S/w Pacific	1.1	8.9	9.6	10.8
Asia - Africa	30.1	82.4	66.0	63.8

Source: IATA Statistics Asia-Pac incl North Asia

- Global FTK growth slowed to a 5-month low of 9.2%yoy in Sep, but remains well above its 5 & 10-year average rates of growth. While weather may have also impacted freight outcomes, this comes amidst broader & ongoing signs that FTKs have passed the cyclical growth peak.
- For the AsiaPac carriers, FTK growth also eased a little, to 9.3%yoy, in line with the industry-wide outcome.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Jul-17	Aug-17	Sep-17
Passenger					
Asia Pacific	ASK	8.4	7.9	8.3	8.1
	PLF	79.7	81.9	82.7	80.1
World	ASK	6.7	6.4	6.4	5.3
	PLF	80.5	84.7	84.6	81.6
Freight					
Asia Pacific	AFTK	3.2	5.1	4.8	5.3
	FLF	52.8	54.6	54.3	56.2
World	AFTK	5.4	3.1	4.2	3.9
	FLF	42.9	43.4	43.2	45.5

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

- A mixed performance in load factors this month, with the PLF falling by 2-2.5pp but a gain of similar magnitude for the FLF at both the industry-wide level and for the AsiaPac carriers.
- The industry-wide PLF was 81.6%, maintaining its gap above the AsiaPac PLF at 80.1%. the situation is reversed for freight, with the region's FLF (56.2%) more than 10pp above the industry figure. For both pax & freight, the AsiaPac airlines have increased capacity at a faster rate than the industry overall.
- The initial Q3 financial data point to an improved EBIT margin performance for the AsiaPac carriers vs a year

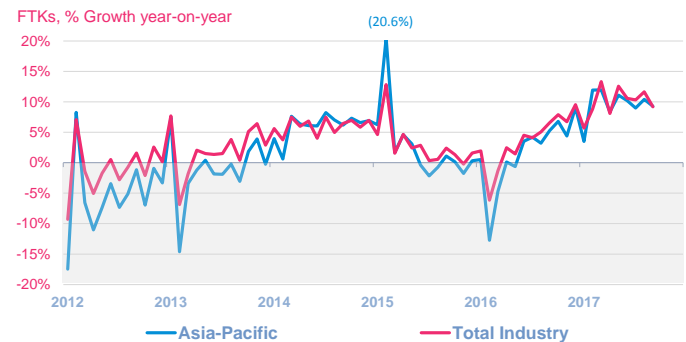
Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q3	2017Q3
Asia Pacific	8.0	10.0	11.9	14.7
Industry	8.5	8.8	18.2	16.3

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

- The strong aggregate outcome is broad-based across all of the key international routes; the two largest markets (Europe & Nth America) are growing at 8.6%yoy, the remainder are in double-digits again this month.
- The strong uptrend in FTKs for the AsiaPac airlines is set against a volatile but generally robust backdrop of buoyant export orders for the region's manufacturers.

Growth in air freight volumes



Source: IATA Statistics

ago, up almost 3pp to 14.7%. although the industry wide performance is down 2pp on last year, it remains higher than the regional outcome, at 16.3%.

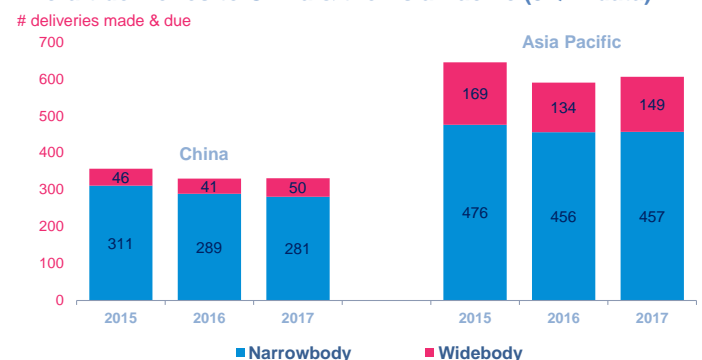
- The upward trend in global pax yields (in US\$ terms) paused in Sep, with mixed results evident across key regional markets. Asia-Europe is the strongest performer over the past year, with yields up a healthy 5.7%. In clear contrast, yield on routes between Asia & Nth America have fallen by a similar magnitude. Yields for the China domestic market are currently down 3.6% compared with their level of a year ago.

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

%change on a yr ago	2016	Jul-17	Aug-17	Sep-17
China domestic	-7.6	-3.9	-2.2	-3.6
Asia - Europe	-10.3	4.7	4.8	5.7
Within Asia	-10.0	-4.4	-4.5	-5.1
Asia - Nth America	-7.2	-3.8	-4.3	-5.7
Asia - Middle East	-10.5	2.5	0.8	-2.3
Asia - Sth America	-9.1	4.7	-15.4	-2.0
Asia - Africa	-8.8	1.1	-3.4	0.6

Source: IATA PaxIS

Aircraft deliveries to China & the Asia Pacific (3Q17 data)



Source: Ascend

Asia-Pac incl North Asia