

State of the region: North Asia

October 2019

Economy

GDP growth, selected economies

% change on a yr ago	2018	Q4 2018	Q1 2019	Q2 2019
People's Republic of China	6.6	6.4	6.4	6.2
Chinese Taipei	2.6	1.8	1.9	2.2
Hong Kong (SAR), China	3.0	1.2	0.6	0.5
Mongolia	6.8	9.1	8.6	6.2
Emerging Asia	6.4	--	--	--
World*	3.2	2.8	2.8	2.6

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Jul-19	Aug-19	Sep-19
US\$ broad index	128.5	127.8	130.4	130.8
Chinese renminbi (CNY)	6.88	6.88	7.15	7.14
Taiwanese dollar (TWD)	30.7	31.1	31.4	31.0
Hong Kong dollar (HKD)	7.83	7.83	7.84	7.84
Mongolian tugrik (MNT)	2640	2666	2670	2668

Source: Datastream

World oil and jet fuel price

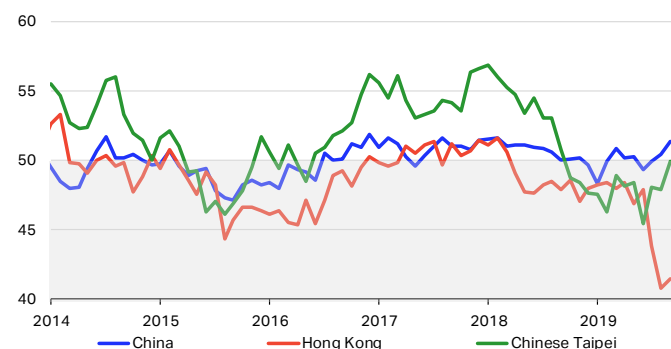
US\$/barrel (period ave.)	2018	Jul-19	Aug-19	Sep-19
Crude oil (Brent)	71.7	64.3	59.6	62.4
Jet fuel	86.4	80.4	76.1	79.8

Source: Platts, Datastream (monthly average data)

- The operating conditions in the manufacturing sector improved for the second consecutive month in China, driven by robust domestic demand.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Sentiment also picked up in Chinese Taipei, pointing to stabilized business environment. Hong Kong's manufacturing sector remains significantly impacted by the ongoing public unrest and US-China trade war.
- The trade weighted US\$ index rose slightly in September, up 0.3%. Of the key regional currencies, the TWD gained 1.2% against the US\$. Despite the high daily volatility, the CNY ended the month broadly unchanged, up just 0.1%.
- The average monthly jet and crude oil price ticked up in September as attacks on oil fields in Saudi Arabia temporarily halted about 5% of global oil supply.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Jun-19	Jul-19	Aug-19
Region (registration basis)				
Asia Pacific	9.3	4.9	4.7	4.9
World	7.3	5.1	3.5	3.8
Routes (segment basis)				
China domestic	12.1	8.9	11.7	10.1
Asia - Europe	7.1	6.8	6.0	6.0
Within Asia	10.5	7.4	6.6	6.8
Asia - Nth America	3.9	2.1	0.4	0.3
Asia - Middle East	4.4	8.2	1.4	1.4
Asia - S/w Pacific	7.2	6.8	3.6	6.6
Asia - Africa	9.4	9.8	1.4	3.4

Source: IATA Statistics Asia-Pac incl North Asia

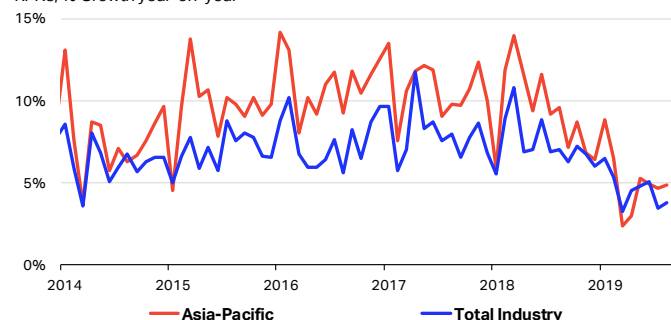
- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) edged up to 3.8% in August. Despite difficult economic conditions in several key markets, the moderate upward trend in passenger traffic remains in place.
- As was the case in last month, Asia Pacific airlines topped August's regional RPK growth rankings with passenger volumes up by ~5% vs a year ago. That said, the growth for the region remains well below the

average growth rate observed between 2015 and 2018 (~10%).

- RPKs in domestic China grew the fastest of all the key domestic markets that we regularly follow, at 10.1%yoy. The solid performance has been underpinned by the country's elevated consumer confidence.
- Growth in passenger demand stabilized on the largest Asia-Europe and Within Asia routes, which posted 6% and 6.8%yoy growth, respectively. Following the slowdown in July, growth picked up to 6.6%yoy on the smaller Asia-S/w Pacific routes.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Jun-19	Jul-19	Aug-19
Region (registration basis)				
Asia Pacific	1.6	-5.8	-4.7	-5.0
World	3.7	-4.6	-2.4	-3.9
Routes (segment basis)				
Asia - Europe	1.1	-4.0	-1.3	-3.4
Asia - Nth America	3.7	-4.3	-3.0	-2.5
Within Asia	0.6	-7.0	-6.7	-7.5
Asia - Middle East	4.8	-4.7	-3.6	-4.9
Asia - S/w Pacific	3.0	-8.1	-7.0	-8.0
Asia - Africa	-4.0	7.3	14.6	17.7

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide air freight tonne kilometres (FTKs) declined further in August (-3.9%yoy), facing headwinds from weakening global trade and softness in a number of key economic indicators.
- Asia Pacific FTK volumes contracted for the tenth consecutive month amidst mounting trade tensions in the region and the slowdown in the Chinese economy. Additional impact came from the temporary shutdown of Hong Kong International Airport.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2018	Jun-19	Jul-19	Aug-19
Passenger					
Asia Pacific	ASK	8.7	4.3	5.0	5.4
	PLF	81.7	82.3	82.9	83.9
World	ASK	6.8	3.4	3.2	3.5
	PLF	82.0	84.4	85.6	85.7
Freight					
Asia Pacific	AFTK	3.5	0.9	2.6	2.3
	FLF	56.0	52.7	51.9	51.6
World	AFTK	5.2	2.0	3.2	2.0
	FLF	49.3	45.8	45.1	44.6

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

- The industry-wide passenger load factor (PLF) reached a new all-time high for the month of August as passenger demand continues to grow faster than capacity. On the freight side, load factor (FLF) eased by 2.7ppt vs a year ago to 44.6%.
- Asia Pacific carriers posted a robust PLF for August at 83.9%. However, the 51.6 % freight load factor represented the lowest outcome for any month of August in the history of the time series for the region as airlines' air freight capacity continues to grow (2.3%yoy) against contracting demand (-5.0%yoy).
- The final Q2 2019 airline financial data showed that

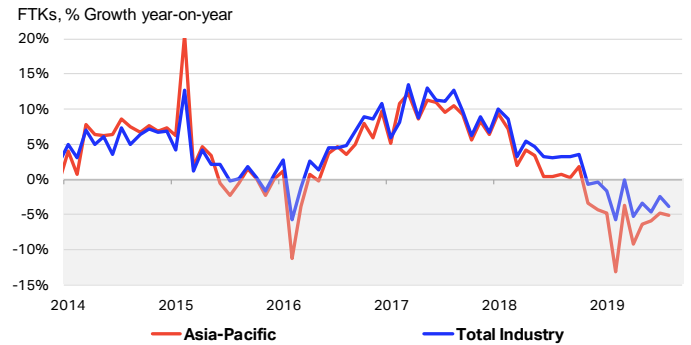
Airline operating (EBIT) margins*

% revenues	2017	2018	2018Q2	2019Q2
Asia Pacific	6.3	4.5	3.3	2.8
Industry	7.5	5.8	7.6	7.6

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

- FTKs continue to shrink in annual terms on five of the six key international routes for the region. The speed of decline increased in the largest Asia-Europe market from -1.3%yoy in July, to -3.4% in August. By contrast, pressure eased slightly on Asia-NthAm routes (albeit by only 0.5ppt).
- The smaller Asia-Africa market posted another month of solid double-digit FTK growth (18%yoy), supported by robust investment flows from Asia Pacific to Africa.

Growth in air freight volumes



Source: IATA Statistics

industry-wide profitability was steady compared to the same quarter a year ago. In Asia Pacific, the EBIT margin eased by 0.5ppt vs a year ago, to 2.8% of revenues.

- Passenger yields shrank in annual terms across the key international routes. Asia-Middle East was the only exception although its yield growth also softened this month (2%yoy vs 15% in July). Despite the robust RPK growth, yields continue to fall in annual terms on China domestic routes (-5%yoy).

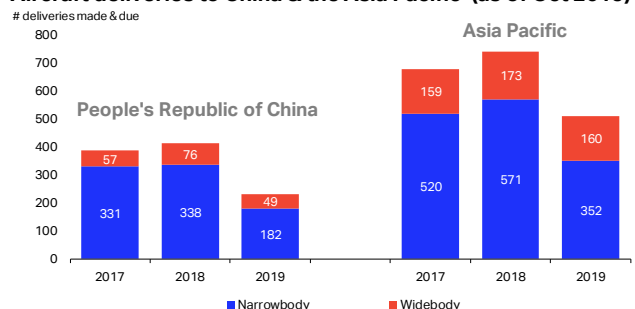
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Jun-19	Jul-19	Aug-19
China domestic	-0.3	-9.1	-5.4	-5.0
Asia - Europe	-1.9	-10.2	-9.6	-7.8
Within Asia	-1.9	-6.3	-4.2	-3.4
Asia - Nth America	-2.7	-4.0	-4.8	-1.6
Asia - Middle East	-1.8	10.2	15.1	1.9
Asia - Sth America	0.7	-11.8	-10.1	-0.7
Asia - Africa	0.8	-7.1	-9.6	-4.1

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

- The latest data confirm 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 (as of Oct 2019)



Source: Ascend

Note: Asia Pacific includes North Asia