



STATE OF THE REGION: NORTH ASIA

OCTOBER 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q4	2016Q1	2016Q2
China	6.9	6.9	6.7	6.7
Chinese Taipei	0.6	-0.9	-0.7	0.7
Hong Kong	2.0	1.9	0.8	1.7
Mongolia	2.3	2.3	3.1	1.4
Emerging Asia	6.6	--	--	--
World*	2.3	2.4	2.2	2.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Jul-16	Aug-16	Sep-16
US\$ broad index	122.4	122.0	120.8	121.8
Chinese renminbi (CNY)	6.49	6.64	6.68	6.67
Taiwanese dollar (TWD)	32.9	31.8	31.8	31.4
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	2067	2214	2278

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Jul-16	Aug-16	Sep-16
Crude oil (Brent)	52.4	45.0	45.8	46.6
Jet fuel	64.0	53.4	54.4	55.4

Source: Platts, EIA Monthly average data

- Business confidence moved higher in the three main economies, particularly in Hong Kong & Chinese Taipei.
- China's renminbi officially became a reserve currency on 1 October, being included in the IMF's special drawing rights (SDR) basket, along with the US\$, yen, euro & GB

Market

Revenue passenger kilometers (RPKs)

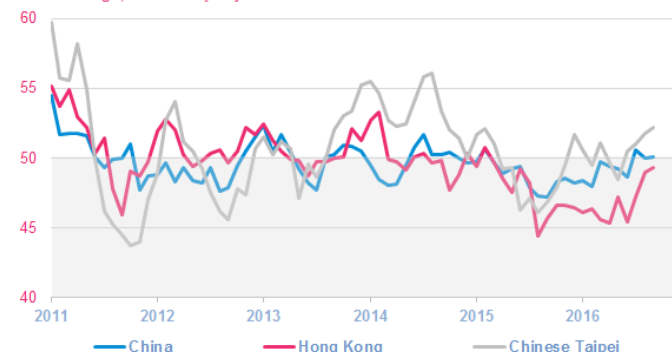
%change on a yr ago	2015	Jun-16	Jul-16	Aug-16
Region (registration basis)				
Asia Pacific	8.7	9.2	10.1	7.8
World	6.5	5.2	6.4	4.6
Routes (segment basis)				
China domestic	11.0	11.3	10.7	12.0
Asia - Europe	4.0	-0.9	1.5	-1.5
Within Asia	7.5	8.5	9.9	2.6
Asia - Nth America	5.8	7.5	7.4	4.3
Asia - Middle East	6.9	0.7	8.9	3.8
Asia - S/w Pacific	6.1	0.1	2.1	-0.5
Asia - Africa	-1.2	5.7	7.6	4.5

Source: IATA Statistics Asia-Pac incl North Asia

- Annual growth in pax volumes eased in Aug, at both the regional & industry-wide level. Even so, at a strong 7.8%yoy, RPKs for the Asia-Pac airlines continue to easily outpace the overall industry rate of 4.6%.
- RPK growth in the China domestic market edged higher this month, maintaining the double-digit growth rate, at 12.0%yoy. This growth is supported by network

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

pound. While the move is largely symbolic in nature, it nonetheless reflects the growing role of China in the global economy.

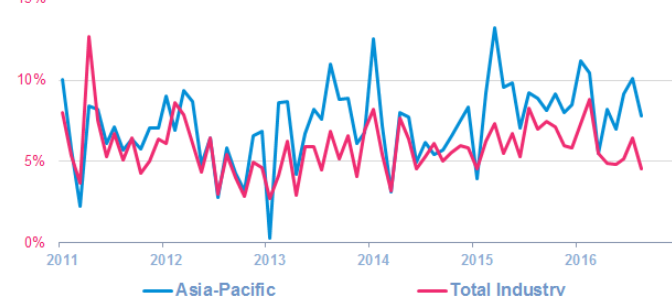
- Mongolia has officially asked the IMF for a rescue loan to help shore up its public finances, which were put under pressure by the fall in global commodity prices.
- The US\$ drifted slightly higher in Sep, rising 0.8% on a trade-weighted basis. Amongst the regional currencies, the MNT fell a further 3% vs the US\$ this month & is now down almost 15%yoy. The TWD gained 1.3%.
- The world price of oil & jet fuel both rose by another 1½-2% in Sep. Markets remain cautious, sensitive to issues of global oversupply as well as discussions taking place within OPEC & elsewhere to limit production.

expansion (# of airport pairs served) & higher incomes.

- Amongst the largest international markets, Asia-Europe RPKs have contracted over the past year, down 1.5%, & are yet to fully recover from the terrorism-related concerns that emerged in the early part of 2016.
- Within Asia, Asia-NthAm & Asia-ME are showing solid, if unspectacular, growth & may be benefitting from the switch in passenger preference away from Europe.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Jun-16	Jul-16	Aug-16
Region (registration basis)				
Asia Pacific	2.3	3.5	4.3	2.8
World	2.2	4.4	4.0	3.9
Routes (segment basis)				
Asia - Europe	-4.9	2.4	3.0	2.3
Asia - Nth America	5.1	1.8	2.4	4.7
Within Asia	-0.4	9.8	6.5	7.2
Asia - Middle East	9.8	3.8	0.5	-3.6
Asia - S/w Pacific	8.6	-5.1	1.9	2.9
Asia - Africa	1.3	21.8	20.7	31.8

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide air freight growth was steady in Aug, with RPKs up a solid 3.9%yoy. The pace of growth for Asia-Pac carriers eased, dipping back below the industry figure, to 2.8%yoy.
- At the segment level, Aug saw a moderation in growth for the key Asia-Europe market (to 2.3%yoy) & a fall (down 3.6%yoy) on routes between Asia & the Middle East. The former moderation in growth partially unwinds

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK	2015	Jun-16	Jul-16	Aug-16
Passenger				
Asia Pacific ASK	6.7	7.3	8.3	7.3
PLF	78.6	79.2	81.5	82.4
World ASK	5.6	5.5	6.0	5.8
PLF	80.2	80.8	84.1	83.8
Freight				
Asia Pacific AFTK	6.7	3.1	2.6	1.2
FLF	53.9	54.7	52.8	51.8
World AFTK	6.3	5.0	4.4	4.1
FLF	44.1	43.1	41.3	40.8

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

- Asia-Pac carriers have increased pax capacity by a brisk 7.3% over the past year, with a load factor of 82.4% in Aug. At the industry level, capacity growth is more restrained, but still robust, at 5.8%yoy, with an overall PLF of 83.8% in Aug.
- For freight, the region's carriers have barely increased capacity over the past year, with AFTKs up just 1.2% vs an industry rate of 4.1%. Asia-Pac carriers remain the market leaders when it comes to freight loads, at 51.8% in Aug vs the industry average 40.8%.
- The latest Q2 operating margin data are largely unchanged on a year ago, at both the regional & industry

Airline EBIT margins*

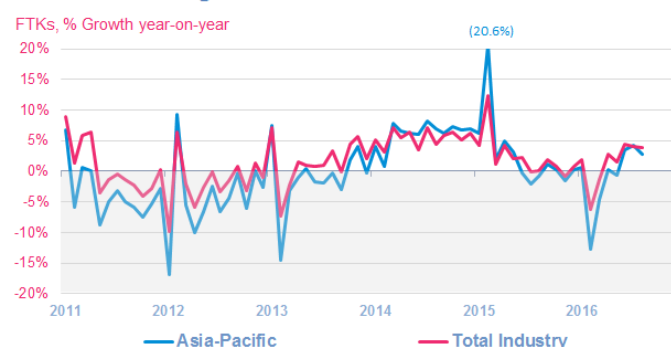
%revenues	2014	2015	2015Q2	2016Q2
Asia Pacific	2.5	7.7	9.3	9.3
Industry	4.7	8.3	10.7	10.8

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

a recent pick-up in freight volumes in this market.

- These developments were partly offset by stronger RPK growth on the trans-Pacific routes between Asia & Nth America (4.7%yoy) & Within Asia (a robust 7.2%yoy).
- The two smaller markets of S/w Pacific-N/S America & Asia-Africa are showing the strongest growth at present, with RPKs for both currently up 25-30%yoy.

Growth in air freight volumes



Source: IATA Statistics

level. Asia-Pac carriers generated a margin of 9.3% in Q2 2016, 1.5pp below the industry rate of 10.8%. The latter continues to be bolstered by the strong financial performance of the Nth American carriers.

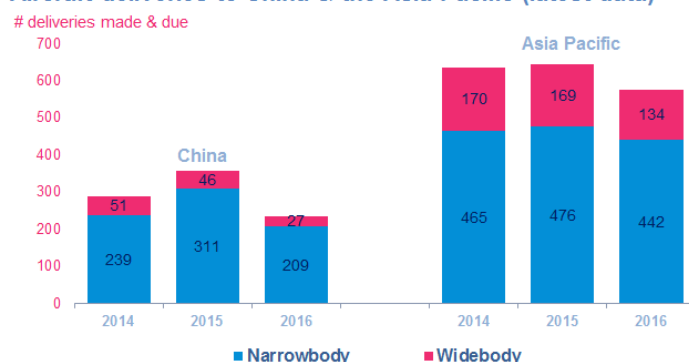
- Pax yields generally remain under considerable pressure. While there are some signs of improvement on a number of markets, yields on all of the key routes are still lower than their level of a year ago. In many cases, including the China domestic market, these declines are double-digit in nature.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jun-16	Jul-16	Aug-16
China domestic	1.7	-9.5	-7.2	-10.4
Asia - Europe	-19.1	-8.8	-10.0	-10.2
Within Asia	-7.7	-11.2	-9.6	-9.3
Asia - Nth America	-15.1	-8.4	-7.9	-4.7
Asia - Middle East	-7.6	-12.4	-8.8	-10.5
Asia - Sth America	-18.0	-13.4	-11.2	5.1
Asia - Africa	-17.8	-9.2	-6.0	-5.6

Source: IATA PaxIS

Aircraft deliveries to China & the Asia Pacific (latest data)



Source: Ascend

Asia-Pac incl North Asia