



STATE OF THE REGION: NORTH ASIA

OCTOBER 2017

Economy

GDP growth, selected countries

%change on a yr ago	2016	2016Q4	2017Q1	2017Q2
China	6.7	6.7	6.9	6.9
Chinese Taipei	1.5	2.7	2.3	2.1
Hong Kong	2.0	3.2	4.3	3.8
Mongolia	1.4	11.0	4.1	6.0
Emerging Asia	6.4	--	--	--
World*	2.3	2.6	2.6	2.8

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Jul-17	Aug-17	Sep-17
US\$ broad index	127.7	120.7	119.3	118.1
Chinese renminbi (CNY)	6.96	6.73	6.59	6.65
Taiwanese dollar (TWD)	32.3	30.2	30.1	30.4
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2442	2429	2463

Source: Datastream, XE

World oil and jet fuel price

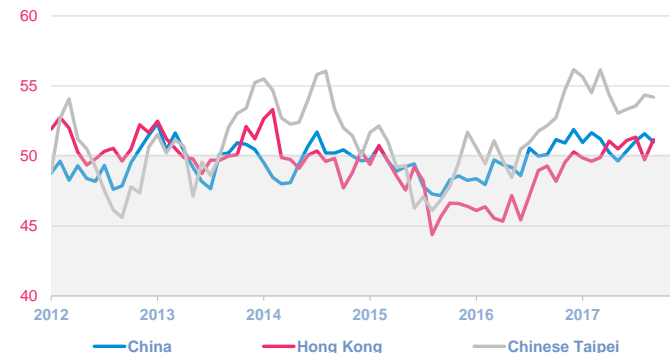
US\$/barrel	2016	Jul-17	Aug-17	Sep-17
Crude oil (Brent)	52.4	48.5	51.7	56.2
Jet fuel	64.0	59.5	65.6	75.6

Source: Platts, EIA Monthly average data

- It was another mixed performance this month across the region's main business confidence indicators. Sentiment rebounded in Hong Kong, with the index returning to levels indicating economic expansion, following a short-lived dip below the key 50-index level.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- For China, confidence unwound all of last month's modest gain. Sentiment was unchanged in Chinese Taipei this month, which continues to easily record the highest level of business confidence amongst the three.
- On a trade-weighted basis, the US\$ eased by another 1% in Sep, continuing its recent downtrend. Of the main regional currencies, the CNY pared some of last month's rise, easing by around 1% vs the US\$ while the MNT fell by 1.5% & more than retracing the Aug increase.
- Brent crude oil & jet fuel prices surged in Sep, the former up 9% (reaching a 26mth high in the process), the latter up 15% & leading to a sharp widening in the crack spread. Supply-side issues again underpinned this month's movements.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Jun-17	Jul-17	Aug-17
Region (registration basis)				
Asia Pacific	9.2	10.9	8.2	9.0
World	6.5	8.0	7.0	7.2
Routes (segment basis)				
China domestic	11.7	15.6	12.7	10.0
Asia - Europe	1.8	10.6	6.5	5.4
Within Asia	9.2	7.4	6.1	9.4
Asia - Nth America	9.6	5.3	3.8	4.6
Asia - Middle East	9.3	5.3	7.1	8.1
Asia - S/w Pacific	4.0	9.8	8.5	9.8
Asia - Africa	6.8	4.8	5.1	2.4

Source: IATA Statistics Asia-Pac incl North Asia

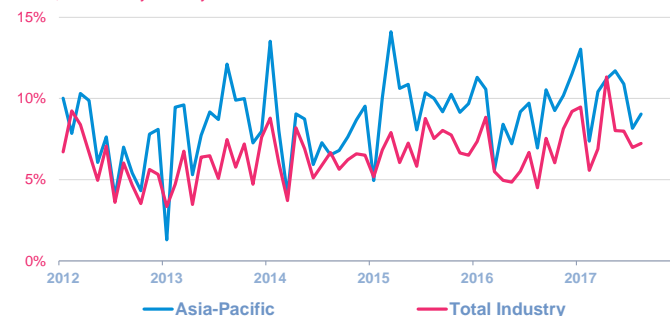
- Industry-wide RPKs grew by a robust 7.2%yoy in Aug, up slightly from July, & completing a solid performance during the peak northern-hemisphere summer period.
- At the regional level, growth in pax volumes lifted to 9.0%yoy for the AsiaPac carriers, ensuring the region retained its position at the top of the growth charts.
- China domestic RPK growth has eased a little in each of

the last two months, to an even 10.0%yoy currently. Air travel demand continues to be stimulated by supply factors including a sizeable increase in the number of airport pairs.

- Of the larger international markets, Asia-S/west Pacific is showing strongest growth, up 9.8%yoy currently, followed by Within Asia, where growth accelerated by 3pp this month, to 9.4%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Jun-17	Jul-17	Aug-17
Region (registration basis)				
Asia Pacific	2.0	10.9	10.2	11.3
World	3.8	10.8	10.9	12.1
Routes (segment basis)				
Asia - Europe	3.9	13.8	11.1	11.8
Asia - Nth America	0.2	10.2	10.1	10.6
Within Asia	6.6	10.9	15.3	15.2
Asia - Middle East	3.7	2.6	9.6	14.5
Asia - S/w Pacific	1.1	27.1	8.9	9.6
Asia - Africa	30.1	79.7	82.4	66.0

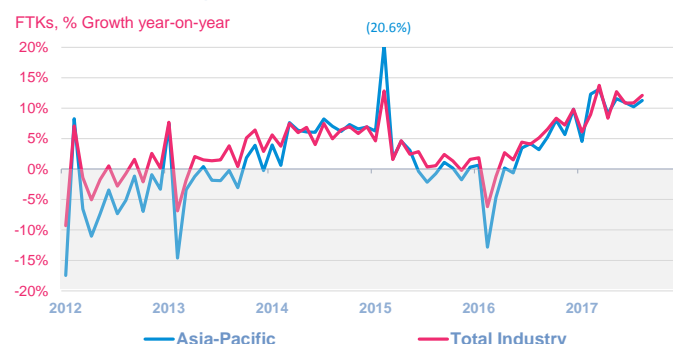
Source: IATA Statistics Asia-Pac incl North Asia

- Global FTK growth stepped up again in Aug, rising to 12.1%yoy, the 5th month of double-digit annual growth in the past 6 months. For the AsiaPac carriers, FTK growth also shifted higher by ~1pp, to 11.3%, & remaining a little below the overall industry performance.
- Demand growth has been strong on all the major routes to, from and within the region, supported by buoyant

export order books for the region's manufacturers, including China.

- All of the region's key freight markets (except Asia-S/west Pacific, at 9.6%) are currently showing double-digit increases in FTKs compared with their level of a year ago. Although relatively small, the 66%yoy FTK growth rate for Asia-Africa cannot go unremarked.

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		2016	Jun-17	Jul-17	Aug-17
Passenger					
Asia Pacific	ASK	8.2	9.1	7.9	8.6
	PLF	79.6	80.6	81.8	82.6
World	ASK	6.5	6.8	6.4	6.3
	PLF	80.5	81.8	84.6	84.5
Freight					
Asia Pacific	AFTK	3.5	6.9	5.6	5.7
	FLF	52.8	56.4	55.0	54.2
World	AFTK	5.4	4.9	3.5	4.7
	FLF	42.9	45.0	43.5	43.3

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

- The industry-wide load factors were relatively stable this month; the PLF held its ground at 84.5% & the FLF dipped only slightly, to 43.3%.
- Despite a moderate gain this month, the PLF performance for the AsiaPac airlines, at 82.6%, remains below the industry outcome. On the freight side, the region's carriers continue to set the pace, with a FLF of 54.2%, ~11pp above the industry average. The AsiaPac carriers have increased capacity – both ASKs & AFTKs – at a faster pace than the industry over the past year.
- The latest Q2 financial data show a modest decline in the EBIT margin for both AsiaPac carriers & the industry overall, vs a year ago. The decline is more pronounced

at the regional level, where the margin has slipped from 7.4% in 2Q16, to 4.6% currently. At the industry level, the margin is currently an even 9.0%, down from 9.8% a year ago.

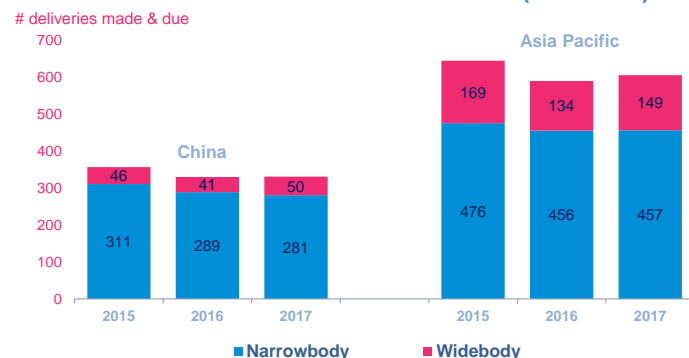
- Global pax yields (in US\$ terms) have continued to trend modestly upwards in recent months. However, compared with their levels of a year ago, yield developments at the regional level are showing more mixed outcomes. Asia-Europe is the current stand-out, with yields up 4.8% vs a year ago.

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

%change on a yr ago	2016	Jun-17	Jul-17	Aug-17
China domestic	-7.6	-7.0	-3.9	-2.2
Asia - Europe	-10.3	1.7	4.7	4.8
Within Asia	-10.0	-5.7	-4.4	-4.5
Asia - Nth America	-7.2	-1.8	-3.8	-4.3
Asia - Middle East	-10.5	1.4	2.5	0.8
Asia - Sth America	-9.1	-1.3	4.7	-15.4
Asia - Africa	-8.8	-0.7	1.1	-3.4

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q2	2017Q2
Asia Pacific	8.0	10.0	7.4	4.6
Industry	8.5	8.8	9.8	9.0

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