

State of the region: North Asia

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	Jun-19	Jul-19	Aug-19
US\$ broad index	128.5	128.3	127.8	130.4
Chinese renminbi (CNY)	6.88	6.87	6.88	7.15
Taiwanese dollar (TWD)	30.7	31.1	31.1	31.4
Hong Kong dollar (HKD)	7.83	7.81	7.83	7.84
Mongolian tugrik (MNT)	2640	2662	2666	2670

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Jun-19	Jul-19	Aug-19
Crude oil (Brent)	71.7	63.2	64.3	59.6
Jet fuel	86.4	76.5	80.4	76.1

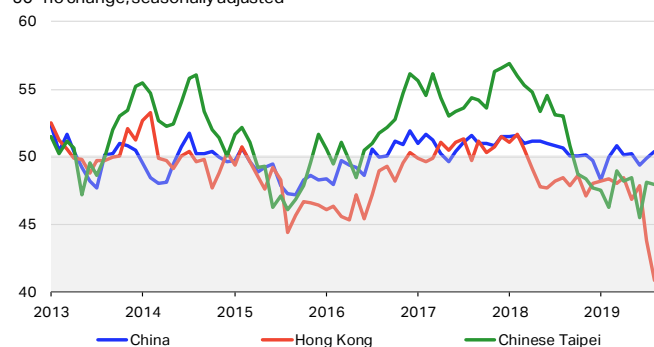
Source: Platts, Datastream (monthly average data)

- Improved production outcomes in August helped to push Chinese business confidence into the territory associated with improving operating conditions.

September 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- Meanwhile, Hong Kong's business sentiment dropped sharply as political protests continue to weigh on the country's economic backdrop. Operating conditions also remain challenging in Chinese Taipei due to lower exports and concerns about the global economy.
- The trade weighted US\$ index rose by 2% in August, marking the fastest month-on-month growth this year. All of the main regional currencies ended the month down against the US\$, most notably the CNY (4%).
- Average monthly jet and crude oil prices fell sharply in August due to the US-China trade war escalation and the resulting concerns about oil demand and the broader economic outlook.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	May-19	Jun-19	Jul-19
Region (registration basis)				
Asia Pacific	9.3	5.3	4.9	5.2
World	7.3	4.8	5.1	3.6
Routes (segment basis)				
China domestic	12.1	8.5	8.9	11.7
Asia - Europe	7.1	10.4	6.8	6.0
Within Asia	10.5	6.8	7.4	6.6
Asia - Nth America	3.9	5.2	2.1	0.4
Asia - Middle East	4.4	1.6	8.2	1.7
Asia - S/w Pacific	7.2	10.6	6.8	3.6
Asia - Africa	9.4	2.5	9.8	1.4

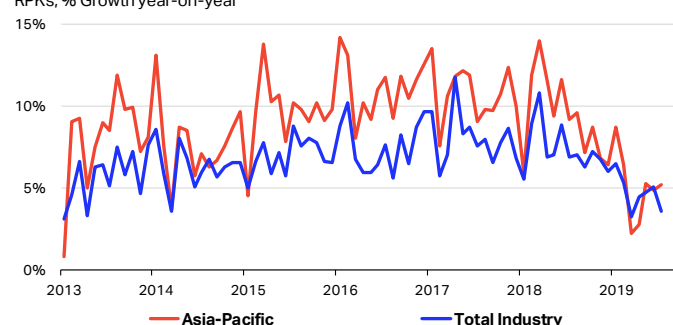
Source: IATA Statistics Asia-Pac incl North Asia

- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) slowed to 3.6% in July, down from the 5.1% growth observed in June. The outcome marks a continuation of the weaker growth trend observed in recent months.
- Asia Pacific airlines topped July's regional RPK growth chart with passenger volumes up by ~5% vs a year ago. This month's uptick was driven by solid growth outcomes in some of the region's key domestic markets.

- A combination of lower fares and more connections continue to support passenger demand in the China domestic market, where RPK growth lifted by 3ppt to 11.7% y-o-y in July.
- RPK growth slowed on all of Asia Pacific's main international routes in July. The key underperformer this month was the Asia-NthAm market where growth slowed to just 0.4% year-on-year. In contrast, the Asia-Europe and Within Asia markets continue to show robust growth despite a modest slowing.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

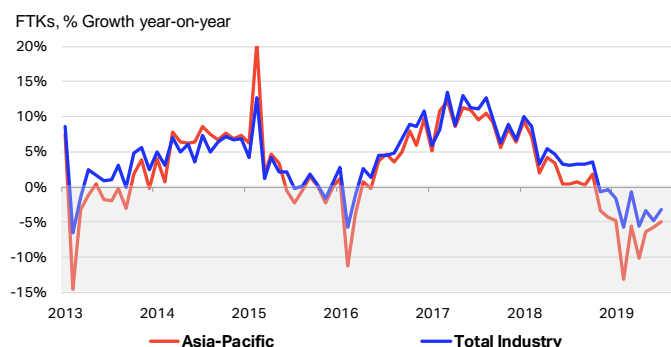
% change on a yr ago	2018	May-19	Jun-19	Jul-19
Region (registration basis)				
Asia Pacific	1.6	-6.3	-5.8	-4.9
World	3.7	-3.4	-4.8	-3.2
Routes (segment basis)				
Asia - Europe	1.1	1.9	-4.0	-1.3
Asia - Nth America	3.7	-5.2	-4.3	-3.0
Within Asia	0.6	-10.7	-7.0	-6.7
Asia - Middle East	4.8	-6.7	-4.7	-3.9
Asia - S/w Pacific	3.0	-4.0	-8.1	-7.0
Asia - Africa	-4.0	12.0	7.3	14.6

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide freight tonne kilometres (FTKs) declined by 3.2% year-on-year in July, reflecting the widespread softness in world trade and a number of global economic indicators.
- Asia Pacific FTK volumes were 5% lower compared to a year ago this July, marking a 9th consecutive month of negative year-on-year growth. The trade disputes between the US and China continue to weigh on outcomes for the region.

- Cargo remained under pressure also on most of the region's key international trade lanes. That said, the rate of decline eased across the larger markets, most notably in Asia-Europe (a 1.3% decline in July compared with -4.0% in June).
- The smallest Asia-Africa continues to outperform the other international markets, posting almost 15% year-on-year growth this month.

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		2018	May-19	Jun-19	Jul-19
Passenger					
Asia Pacific	ASK	8.7	4.2	4.3	5.1
	PLF	81.7	80.4	82.3	83.1
World	ASK	6.8	2.7	3.4	3.2
	PLF	82.0	81.8	84.4	85.7
Freight					
Asia Pacific	AFTK	3.5	-1.1	1.0	2.5
	FLF	56.0	53.2	52.6	51.9
World	AFTK	5.2	1.0	1.8	2.6
	FLF	49.3	47.1	45.8	45.0

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 reached a new all-time high of 85.7% in July. The story was less positive on the freight side with load factor almost 3ppt below the level seen in July 2018.
- Asia Pacific carriers posted robust PLF for this month at 83.1%. However, the 51.9 % freight load factor represented the lowest outcome for any month of July in the history of our time series.
- The latest Q2 financial results point to a modest improvement (0.3ppt) in industry-wide profitability compared to Q2 2018. In Asia Pacific, the overall

EBIT margin eased modestly vs a year ago, slipping to 3.3%, from 3.6%.

- In line with the region's profit results, passenger yields declined in annual terms on the majority of the key international routes and in the China domestic market. The ongoing exception is the smaller Asia-Middle East market with yields up 15% vs a year ago.

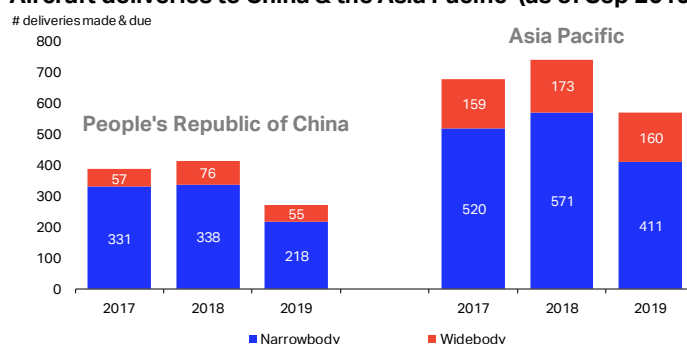
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	May-19	Jun-19	Jul-19
China domestic	-0.3	-6.7	-8.8	-5.3
Asia - Europe	-1.9	-3.1	-10.2	-9.8
Within Asia	-1.9	-3.9	-6.2	-4.2
Asia - Nth America	-2.7	-1.3	-3.9	-4.7
Asia - Middle East	-1.7	14.8	10.0	15.1
Asia - Sth America	0.7	-11.3	-11.8	-10.1
Asia - Africa	0.8	-5.4	-7.1	-9.6

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

- The September 2019 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 Sep 2019)



Source: Ascend

Note: Asia Pacific includes North Asia

Airline operating (EBIT) margins*

% revenues	2017	2018	2018Q2	2019Q2
Asia Pacific	6.3	4.5	3.6	3.3
Industry	7.5	5.8	8.0	8.3

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