



STATE OF THE REGION: NORTH ASIA

SEPTEMBER 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q4	2016Q1	2016Q2
China	6.9	6.8	6.7	6.7
Chinese Taipei	0.6	-0.9	-0.7	0.7
Hong Kong	2.4	1.9	0.8	1.7
Mongolia	2.3	2.3	3.1	--
Emerging Asia	6.6	--	--	--
World*	2.5	2.3	2.2	2.1

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Jun-16	Jul-16	Aug-16
US\$ broad index	122.4	121.2	121.9	120.8
Chinese renminbi (CNY)	6.49	6.65	6.64	6.68
Taiwanese dollar (TWD)	32.9	32.2	31.8	31.8
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	1980	2067	2214

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Jun-16	Jul-16	Aug-16
Crude oil (Brent)	52.4	48.3	45.0	45.8
Jet fuel	64.0	58.0	53.4	54.4

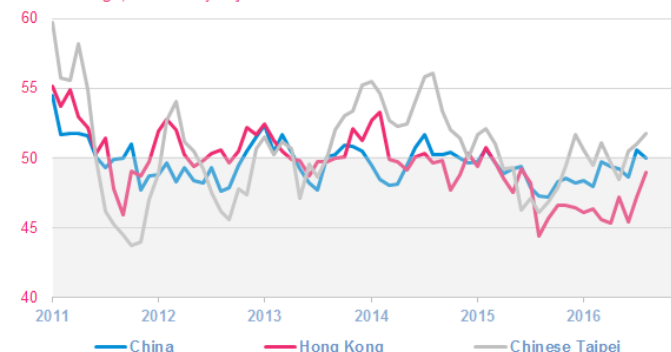
Source: Platts, EIA Monthly average data

→ Business confidence in both Chinese Taipei &, in particular, Hong Kong surged higher this month, buoyed by positive developments both domestically & in the region more broadly.

→ For mainland China, confidence gave up some of last

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

month's gain, but the clear uptrend evident since late 2015 remains in place. Developments in sentiment are consistent with the view that concerns around China's economic outlook are abating.

- The US\$ continued its broadly sideways trend of 2016, easing 1% & giving back its July gain. Amongst the main regional currencies, the MNT fell another 7% vs the US\$ this month with ongoing concerns over commodity prices & policy developments. The CNY fell by 0.6%.
- The world price of oil & jet fuel ticked higher in Aug, both up ~2% in the month. In terms of key price drivers, the prospect of OPEC nations agreeing to production cuts was broadly offset by lingering concerns of oversupply & few signs of an improved demand outlook.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	May-16	Jun-16	Jul-16
Region (registration basis)				
Asia Pacific	8.7	7.0	9.1	9.6
World	6.5	4.8	5.2	5.9
Routes (segment basis)				
China domestic	11.0	10.8	11.3	10.2
Asia - Europe	4.0	-2.9	-0.9	1.5
Within Asia	7.5	3.3	8.5	9.9
Asia - Nth America	5.8	3.5	7.5	7.4
Asia - Middle East	6.9	5.9	0.7	8.9
Asia - S/w Pacific	6.1	1.3	0.1	2.1
Asia - Africa	-1.2	5.5	5.7	7.6

Source: IATA Statistics Asia-Pac incl North Asia

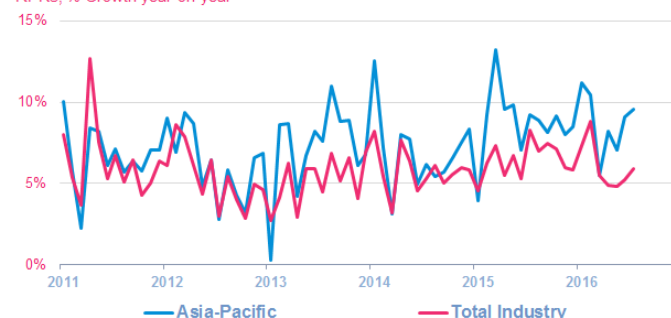
→ RPKs for the Asia-Pac airlines continue to grow at a much faster rate than the industry overall; 9.6%yoy to July vs 5.9%yoy. The Asia-Pac region is second only to the Middle East in terms of current RPK growth.

→ Despite a modest easing this month, RPKs in the China domestic market continued its double-digit pace of growth, up a strong 10.2% compared with a year ago.

- At the segment level, the gradual improvement in RPK growth on routes between Asia & Europe (the largest market) continued, with yoy growth returning to a positive, albeit modest, level of 1.5%.
- Within Asia, along with both Asia-NthAm & Asia-ME are the strongest performers amongst the largest international markets, with growth in all three having improved over recent months.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2014	May-16	Jun-16	Jul-16
Region (registration basis)				
Asia Pacific	2.3	-0.6	3.5	4.9
World	2.2	1.5	4.5	5.0
Routes (segment basis)				
Asia - Europe	-4.9	1.5	2.4	2.9
Asia - Nth America	5.1	-2.7	2.2	1.8
Within Asia	-0.4	4.5	9.8	6.5
Asia - Middle East	9.8	3.3	3.8	0.5
Asia - S/w Pacific	8.6	-1.5	-5.1	1.9
Asia - Africa	1.3	18.5	21.8	20.7

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide air freight growth moved higher again in July, with RPKs now up a solid 5%yoy. Asia-Pac carriers also saw an improvement in freight volumes, with growth rising to be in line with the industry pace of the past year.
- At the segment level, performance was mixed this month. Amongst the largest markets, FTKs for Asia-Europe lifted to almost 3%yoy but growth rates eased

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2015	May-16	Jun-16	Jul-16
Passenger					
Asia Pacific	ASK	6.7	7.2	7.3	8.2
	PLF	78.6	77.0	79.1	81.2
World	ASK	5.6	5.6	5.6	6.0
	PLF	80.2	78.8	80.7	83.7
Freight					
Asia Pacific	AFTK	6.7	2.3	3.1	2.7
	FLF	53.9	52.4	54.7	53.1
World	AFTK	6.3	4.4	5.0	5.2
	FLF	44.1	42.4	43.2	41.3

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

- The region's carriers have increased pax capacity by more than 8% over the past year, more than 2pp faster than the industry overall.
- The converse situation holds for freight where the Asia-Pac growth in AFTKs has been subdued, at just 2.7%yoy, well down on the solid 5.2% industry rate.
- The load factor story is similarly mixed; despite recording an improved PLF, slightly above 81% in July, the Asia-Pac carriers are solidly below the industry-wide figure of 83.7%. But, for the FLF, at ~53%, the Asia-Pac easily outperforms the industry aggregate, by almost 12pp currently.

Airline EBIT margins*

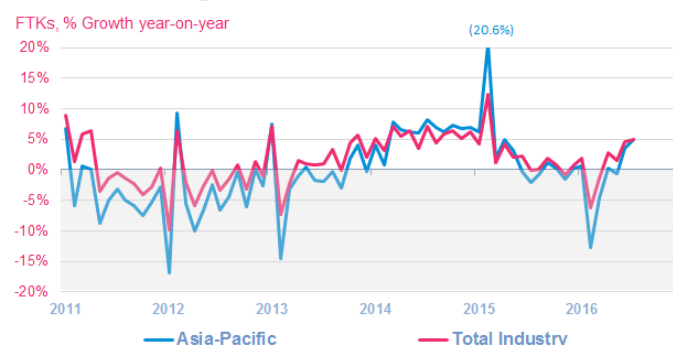
%revenues	2014	2015	2015Q2	2016Q2
Asia Pacific	2.5	7.7	4.4	4.4
Industry	4.7	8.3	9.7	9.9

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

across each of Asia-NthAm, Within Asia & Asia-ME. Looking through the recent volatility, however, the overall trend seems to broadly point to a modest improvement.

- The strong performance of the (much smaller) Asia-Africa market is notable, where FTKs have increased at a pace of around 20%yoy over recent months.

Growth in air freight volumes



Source: IATA Statistics

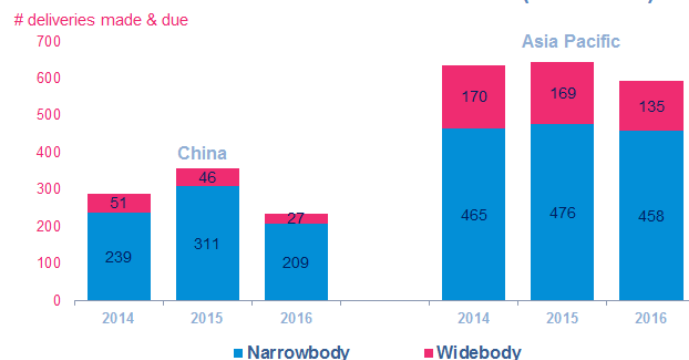
- The latest Q2 financial data show an operating margin for the region's airlines unchanged from a year ago, at a modest 4.4%.
- However, this figure is less than half the overall industry rate of almost 10%, bolstered by the ongoing strong financial performance of the NthAm carriers.
- Passenger yields in both the China domestic & key international markets all remain well down in yoy terms. Asia-Europe & Asia-SthAm markets are in double-digit yield decline compared with levels of a year ago.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	May-16	Jun-16	Jul-16
China domestic	1.7	-9.9	-9.5	-7.2
Asia - Europe	-19.1	-8.5	-8.8	-10.0
Within Asia	-7.7	-12.2	-11.2	-9.6
Asia - Nth America	-15.1	-9.4	-8.4	-7.9
Asia - Middle East	-7.6	-11.9	-12.4	-8.8
Asia - Sth America	-18.0	-12.7	-13.4	-11.2
Asia - Africa	-17.8	-8.3	-9.2	-6.0

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia