STATE OF THE REGION: NORTH ASIA

SEPTEMBER 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	Jun-17	Jul-17	Aug-17
US$ broad index	127.7	122.3	120.7	119.3
Chinese renminbi (CNY)	6.96	6.78	6.73	6.59
Taiwanese dollar (TWD)	32.3	30.4	30.2	30.1
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tughrik (MNT)	2488	2347	2442	2429

Source: Datastream, XE

World oil and jet fuel price

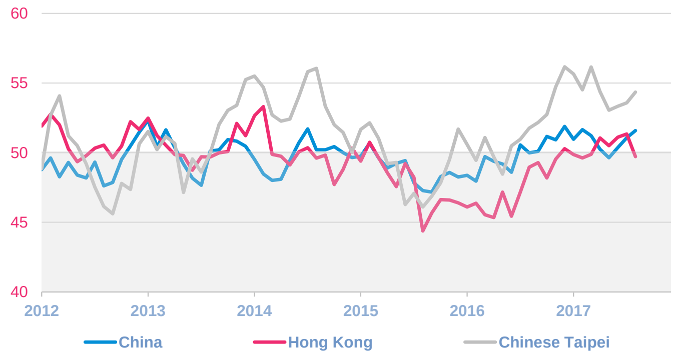
US$/barrel	2016	Jun-17	Jul-17	Aug-17
Crude oil (Brent)	52.4	46.4	48.5	51.7
Jet fuel	64.0	54.4	59.5	65.6

Source: Platts, EIA Monthly average data

- A mixed performance this month across the main business confidence indicators. Sentiment improved further in both China & Chinese Taipei, but softened (sharply) in Hong Kong for the first time since March. Anecdotal evidence suggests that signs of slowing demand from the mainland, along with supply chain impacts from China's environmental protection laws may have contributed to the outcome for Hong Kong. Chinese Taipei continues to post the highest level of business confidence of the three key regional markets.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- On a trade-weighted basis, the US$ eased further in Aug, slipping 1.1% in the month & continuing its recent downwards trend. Of the main regional currencies, the CNY gained 2% in the month vs the US$, while the TWD & MNT gained a more modest 0.3-0.5%.
- Brent crude oil & jet fuel prices rose again in Aug, stepping up by 7-10%; the former moving back above US$50/bbl & the latter above US$65/bbl. The crack spread also widened further this month.

Market

Revenue passenger kilometers (RPKs)

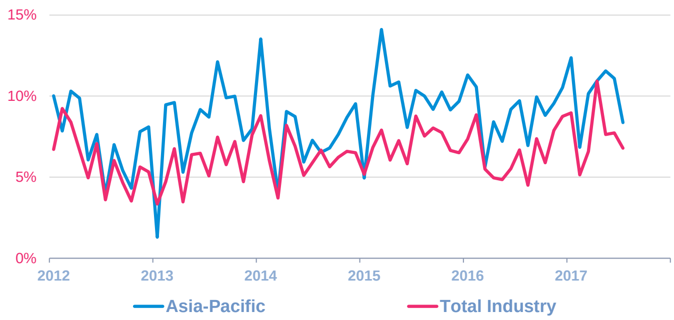
%change on a yr ago	2016	May-17	Jun-17	Jul-17
Region (registration basis)				
Asia Pacific	9.0	11.6	11.1	8.4
World	6.4	7.6	7.7	6.8
Routes (segment basis)				
China domestic	11.7	16.8	17.2	15.0
Asia - Europe	1.8	15.4	10.6	6.4
Within Asia	7.3	5.7	5.2	4.0
Asia - Nth America	6.4	5.8	5.3	3.8
Asia - Middle East	9.0	6.7	5.0	6.6
Asia - S/w Pacific	3.9	9.2	9.4	7.5
Asia - Africa	6.8	8.1	4.8	5.1

Source: IATA Statistics Asia-Pac incl North Asia

- Global RPKs grew by a robust 6.8%yoy in Jul, easing from 7.7% in Jun. For the AsiaPac carriers, pax volume growth also eased this month but, at 8.4%yoy, the region still tops the growth charts.
- China domestic RPKs are up 15.0% in yoy terms in Jul. Despite easing a little from last month, this is currently the strongest pace amongst the key domestic markets that we monitor. There continues to be few indications of any moderation in the seasonally-adjusted trend in pax volumes for this market.
- Of the larger international markets, Asia-ME is the strongest performer, growing at a 6.6%yoy pace, with the Asia-Europe market not far behind at 6.4%yoy. The smaller Asia-S/west Pacific market is growing a little quicker, at 7.5%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

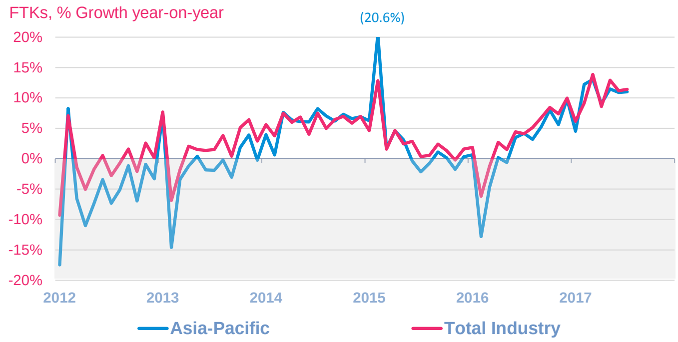
Freight tonne kilometers (FTKs)

%change on a yr ago	2016	May-17	Jun-17	Jul-17
Region (registration basis)				
Asia Pacific	9.0	11.6	11.1	8.4
World	6.4	7.6	7.7	6.8
Routes (segment basis)				
China domestic	11.7	16.8	17.2	15.0
Asia - Europe	1.8	15.4	10.6	6.4
Within Asia	7.3	5.7	5.2	4.0
Asia - Nth America	6.4	5.8	5.3	3.8
Asia - Middle East	9.0	6.7	5.0	6.6
Asia - S/w Pacific	3.9	9.2	9.4	7.5
Asia - Africa	6.8	8.1	4.8	5.1

Source: IATA Statistics Asia-Pac incl North Asia

- Global FTK growth ticked up slightly in Jul, to 11.4%yoy – recording a double-digit annual growth rate for the 4th time in 5 months.
- For the AsiaPac carriers, FTK growth was essentially unchanged this month, up 11%yoy & broadly aligned with the overall industry performance. Despite recent mixed outcomes, the latest data showed improving conditions in the major exporters of China and Japan, which will help to support freight volumes going forward.
- The three largest international markets are currently all showing double-digit FTK growth; Within Asia is the standout, at 16.0%yoy. While much smaller, freight vols for the Asia-Africa market are up a massive 80%yoy.

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	May-17	Jun-17	Jul-17
Passenger					
Asia Pacific	ASK	8.0	8.4	9.1	7.9
	PLF	*79.6*	*79.6*	*80.8*	*82.0*
World	ASK	6.4	6.2	6.4	6.1
	PLF	*80.5*	*80.0*	*81.9*	*84.7*
Freight					
Asia Pacific	AFTK	3.5	5.7	7.4	6.3
	FLF	*52.8*	*55.0*	*56.1*	*55.0*
World	AFTK	5.4	4.9	4.8	3.7
	FLF	*43.0*	*45.4*	*45.2*	*43.7*

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 pax load factor increased to a strong 84.7% in Jul, with ASKs up 6.1%. For the AsiaPac carriers, pax capacity is up ~8%yoy &, despite a moderate gain this month, the PLF sits below the industry figure, at an even 82%.
- AsiaPac airlines have also increased freight capacity by more than the industry, at 6.3% vs a more modest 3.7%, over the past year. But the AsiaPac FLF continues to set the standard, at 55.0% vs the industry-wide 43.7%.
- The latest Q2 financial data further suggest that the squeeze on industry margins has eased somewhat from Q1. At the industry level, the EBIT margin is currently 9.5%, down from 10.2% in 2Q16. The story is less upbeat for the AsiaPac carriers where the EBIT margin is 3pp lower than a year ago (4.3% vs 7.3% a 2Q16) & remains well below the industry-wide performance.
- Global pax yields (in US$ terms) have continued to trend modestly upwards in recent months. This trend is broadly reflected at the regional level, with most markets now reporting higher yields compared with a year ago; Within Asia, Asia-Nth America & domestic China being the exceptions.

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q2	2017Q2
Asia Pacific	8.0	10.0	7.3	4.3
Industry	8.5	8.8	10.2	9.5

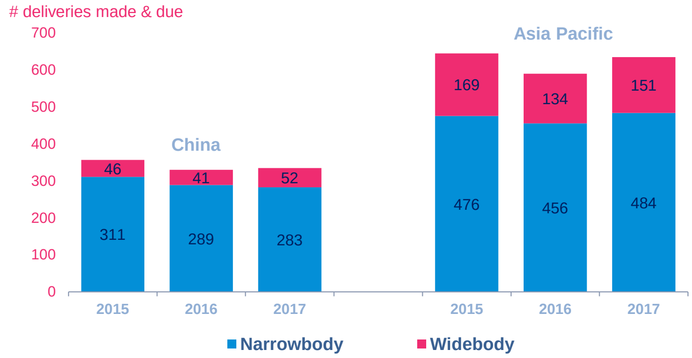
Source: Airline Analyst * constant sample basis, not seasonally adjusted Asia-Pac incl Nth Asia

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

%change on a yr ago	2016	May-17	Jun-17	Jul-17
China domestic	-7.6	-8.2	-7.0	-3.9
Asia - Europe	-10.3	1.5	1.7	4.7
Within Asia	-10.0	-5.6	-5.7	-4.4
Asia - Nth America	-7.2	-2.7	-1.8	-3.8
Asia - Middle East	-10.5	0.8	1.4	2.5
Asia - Sth America	-9.1	-1.6	-1.3	4.7
Asia - Africa	-8.8	-0.9	-0.7	1.1

Source: IATA PaxIS

Aircraft deliveries to China & the Asia Pacific (2Q17 data)



Source: Ascend

Asia-Pac incl North Asia