

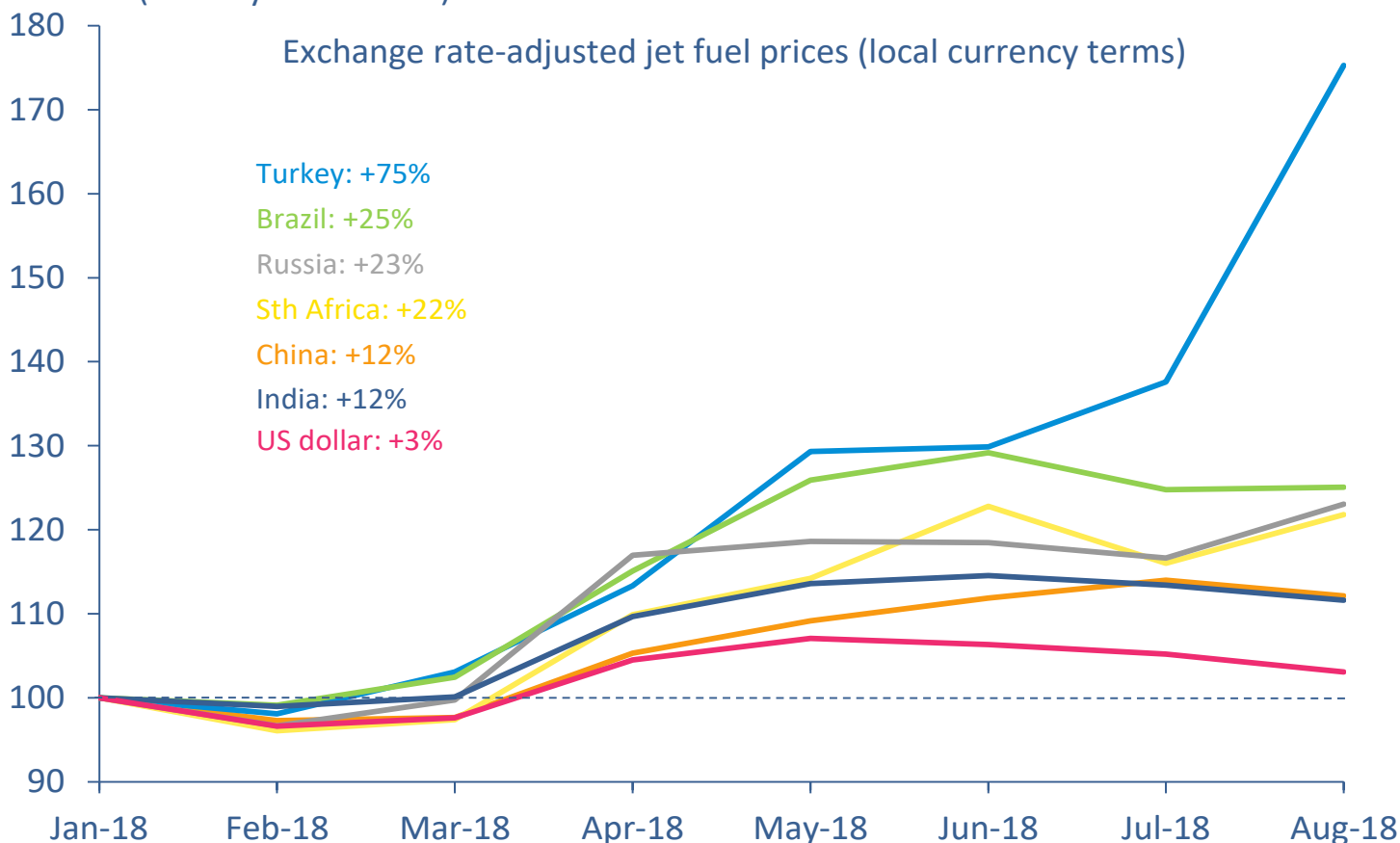


## IATA ECONOMICS' CHART OF THE WEEK

17 AUGUST 2018

### RIISING JET FUEL PRICES COMPOUNDED BY EXCHANGE RATE VOLATILITIES

Indices (January 2018 = 100)



Sources: IATA, Platts, Thomson Reuters Datastream

- As we noted last [week](#), global economic policy uncertainty has risen substantially over the past six months or so. More recently this has been reflected in heightened volatility in financial markets and increasing investor concerns regarding a number of key emerging market economies, including Turkey. One of the more visible impacts is in exchange rate movements; the Turkish lira, for example has lost more than 40% of its value against the US dollar since the start of the year, and the Brazilian real is down almost 20%.
- From an air transport perspective, a lower exchange rate can help to boost inbound tourism flows. But at the same time, the lower exchange rate will exacerbate rising pressure on US dollar-denominated costs, including fuel prices. In US\$ terms, the global price of jet fuel has risen by around 3% over the year to date. In local currency terms, however, the increase in price can be much more significant; up 75% in Turkish lira terms, for example.
- Of course, exchange rates can be volatile and the recent sharp declines could be unwound relatively quickly should investor sentiment recover. Many airlines also hedge their foreign exchange and fuel price exposures as part of their standard risk management practices. Both of these factors may limit the effect of recent exchange rate shifts. Nonetheless, with fuel prices accounting for around 25% of total airline operating costs on average in 2017, the potential impact of exchange rate developments on airline profitability is clear.

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[economics@iata.org](mailto:economics@iata.org)