

State of the region: Asia-Pacific

January 2019

Economy

GDP growth, selected countries

| % change on a yr ago | 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|----------------------|------------|------------|------------|------------|
| India | 6.2 | 7.7 | 8.2 | 7.1 |
| Japan | 1.9 | 1.2 | 1.4 | 0.1 |
| Indonesia | 5.1 | 5.1 | 5.3 | 5.2 |
| Korea | 3.1 | 2.8 | 2.8 | 2.0 |
| Australia | 2.4 | 3.0 | 3.1 | 2.8 |
| Thailand | 3.9 | 4.9 | 4.6 | 3.4 |
| Malaysia | 5.9 | 5.4 | 4.5 | 4.4 |
| World* | 1.3 | 3.2 | 3.2 | 2.9 |

* Market exchange rate basis † Estimate Source: Datastream

Exchange rates

| end of period, # per US\$ | 2017 | Oct-18 | Nov-18 | Dec-18 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 120.0 | 126.9 | 128.3 | 128.5 |
| Japanese yen (JPY) | 112.5 | 112.9 | 113.5 | 110.0 |
| Australian dollar (AUD) | 1.28 | 1.41 | 1.37 | 1.42 |
| Sth Korean won (KRW) | 1066 | 1141 | 1121 | 1115 |
| Indian rupee (INR) | 63.8 | 73.9 | 69.7 | 69.8 |
| Indonesian rupiah (IDR) | 13568 | 15203 | 14303 | 14380 |
| Thai baht (THB) | 32.6 | 33.2 | 32.9 | 32.6 |
| Malaysian ringgit (MYR) | 4.0 | 4.18 | 4.18 | 4.13 |

Source: Datastream, XE

World oil and jet fuel price

| US\$/barrel (period ave.) | 2017 | Oct-18 | Nov-18 | Dec-18 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 54.2 | 81.0 | 64.8 | 57.4 |
| Jet fuel | 65.6 | 94.4 | 81.7 | 71.2 |

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

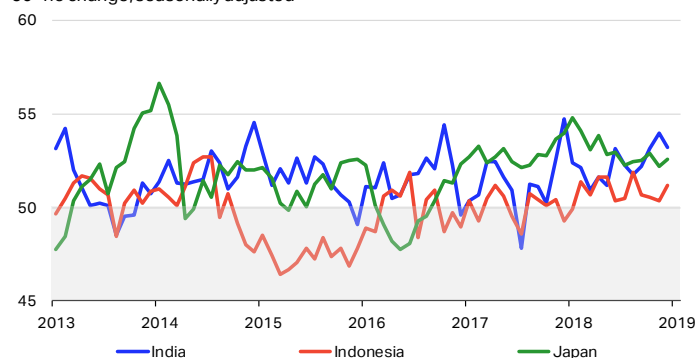
| % change on a yr ago | 2017 | Sep-18 | Oct-18 | Nov-18 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 10.8 | 6.5 | 7.6 | 6.3 |
| World | 8.0 | 5.5 | 6.3 | 6.2 |
| Routes (segment basis) | | | | |
| India domestic | 17.5 | 19.6 | 15.0 | 13.3 |
| Japan domestic | 5.8 | -5.0 | 1.7 | 1.5 |
| Australia domestic | 0.4 | 0.7 | 1.3 | -0.7 |
| Asia - Europe | 10.5 | 7.1 | 7.5 | 7.6 |
| Within Asia | 11.4 | 6.0 | 6.1 | 5.9 |
| Asia - Nth America | 7.2 | 2.0 | 1.7 | 3.4 |
| Asia - Middle East | 7.0 | 3.5 | 5.9 | 4.7 |
| S/w Pacific - N/S America | 6.5 | 5.0 | 7.1 | 8.4 |
| Asia - Africa | 3.7 | 9.7 | 5.8 | 9.9 |

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide revenue passenger kilometers (RPK) grew by 6.2% year-on-year in Nov, a slight deceleration from 6.3% in the previous month. While the result remains above the 10-year average RPK growth rate (6.0%), some slowing is evident in recent months.
- Annual RPK growth for the AsiaPac carriers broadly converged to the industry-wide outcome, with

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

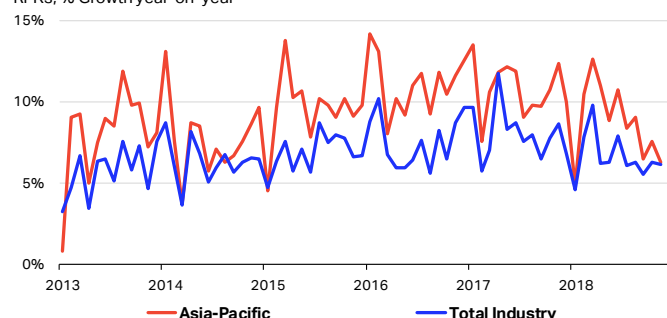
- Although India's business confidence ticked down a little this month, it remains at levels consistent with growth in employment and production. Sentiment lifted both in Indonesia and Japan, in the former case being driven by a pick-up in domestic demand.
- The US\$ rose by 0.2% in Dec, up ~7% over the course of the year. Amongst the main regional currencies, the JPY lifted by 3.2% against the \$US while the AUD fell by 3.5% this month. The rest of FX movements were relatively muted.
- Brent crude oil & jet fuel prices plunged in Q4 as market concerns moved to oversupply, but have recovered partially since then amid signs of new supply cuts.

passenger demand 6.3% higher vs a year ago.

- The India domestic market sustained a solid double-digit growth rate of 13.3% vs a year ago, although this was a slight slowdown from 15.0%yoy in Oct. For Australia domestic, RPK growth fell into negative territory, to -0.7%yoy.
- Amongst the region's larger international markets, Asia-Europe & Within Asia both continued to grow strongly with RPKs up ~6-7.5% in annual terms.
- Passenger demand in the smaller Asia-Africa recovered to a robust 10%yoy in November.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

| % change on a yr ago | 2017 | Sep-18 | Oct-18 | Nov-18 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 9.0 | 0.4 | 1.7 | -2.3 |
| World | 9.7 | 3.0 | 3.2 | 0.0 |
| Routes (segment basis) | | | | |
| Asia - Europe | 12.2 | 0.2 | 2.0 | -1.0 |
| Asia - Nth America | 10.1 | 3.2 | 4.8 | -1.2 |
| Within Asia | 8.6 | -5.1 | 1.7 | -6.0 |
| Asia - Middle East | 8.1 | 5.7 | 7.1 | 3.7 |
| S/w Pacific - N/S America | 24.6 | 16.0 | 12.0 | 18.6 |
| Asia - Africa | 57.8 | -11.8 | -3.6 | -15.9 |

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide FTKs were unchanged in annual terms in Nov, marking the slowest growth rate since early 2016. All told, freight volumes rose by 3.9% year-on-year between Jan and Nov, compared to 10% over the same period a year ago.
- At the regional level, FTKs for the Asia-Pacific were *lower* vs a year ago for the first time in ~18mths, underperforming the industry-wide average by 2.3pp.

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, | | 2017 | Sep-18 | Oct-18 | Nov-18 |
|----------------------------|------|------|--------|--------|--------|
| LF: % of ASK/AFTK | | | | | |
| Passenger | | | | | |
| Asia Pacific | ASK | 9.0 | 6.1 | 7.1 | 7.4 |
| | PLF | 81.0 | 80.7 | 80.7 | 80.2 |
| World | ASK | 6.6 | 5.9 | 6.3 | 6.8 |
| | PLF | 81.5 | 81.4 | 81.0 | 80.0 |
| Freight | | | | | |
| Asia/Pacific | AFTK | 5.6 | 1.3 | 4.3 | 3.1 |
| | FLF | 57.2 | 57.6 | 56.7 | 57.2 |
| World | AFTK | 5.9 | 4.6 | 5.5 | 4.3 |
| | FLF | 49.9 | 49.5 | 50.4 | 51.5 |

Source: IATA Statistics. Note: LF=seasonally adjusted load factor. ASK=available seat kilometers. AFTK=available freight tonne kilometers

- The industry-wide passenger load factor eased to 80% in Nov as capacity continues to trend upwards at a faster pace than demand. In contrast, the freight load factor lifted by 1pp to 51.5% this month.
- The PLF for the AsiaPac airlines softened to 80.2% in Nov and stays broadly in line with the industry wide average. The region's FLF lifted modestly to 57.2%.
- The final Q3 financial data confirm the squeeze on industry financial performance, with an EBIT margin of 10.7% vs 14.2% a year ago. For AsiaPac carriers, the Q3 margin almost halved to 6.4% vs Q3 2017.

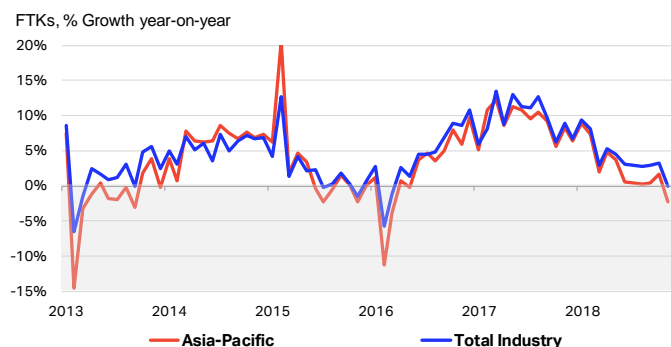
Airline operating (EBIT) margins*

| % revenues | 2016 | 2017 | 2017Q3 | 2018Q3 |
|--------------|------|------|--------|--------|
| Asia Pacific | 7.4 | 5.5 | 11.4 | 6.4 |
| Industry | 8.5 | 7.5 | 14.2 | 10.7 |

Source: Airline Analyst * constant sample basis, not seasonally adjusted

- FTK growth fell into negative territory this month across most of the region's larger international markets, with Asia-Europe & NthAm volumes down by ~1% vs a year ago and Within-Asia FTKs 6% below levels seen in November 2017.
- Of the smaller markets, Asia-Africa FTKs declined by ~16%, making it the key underperformer in the region in Nov. In contrast, S/w Pacific - N/S America sustained a strong double-digit growth (18.6%).

Growth in air freight volumes



Source: IATA Statistics

- Many of the region's key markets experienced a year-on-year decline in passenger yields, with Within Asia & Asia-Europe being the key underperformers (-6.2% & -3.4%, respectively).
- Yields showed the strongest gain in Asia-NthAm vs last year (3.9%), followed by Australia domestic (1.5%yoy).

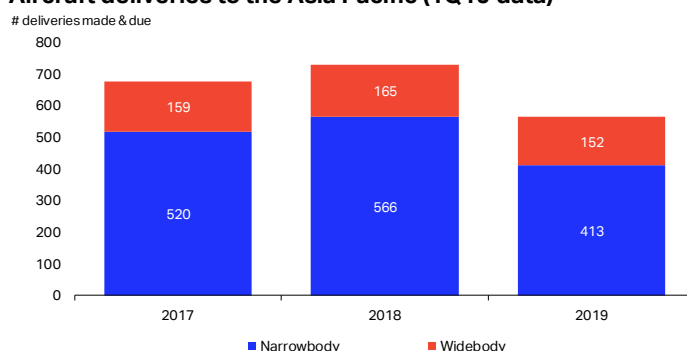
Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago | 2017 | Sep-18 | Oct-18 | Nov-18 |
|----------------------|------|--------|--------|--------|
| India domestic | -2.3 | -11.0 | -8.8 | -1.0 |
| Australia domestic | 5.5 | 4.6 | 4.0 | 2.0 |
| Asia - Europe | 1.9 | -2.7 | -1.0 | -3.4 |
| Within Asia | -5.6 | -3.3 | -4.5 | -6.2 |
| Asia - Nth America | -3.2 | 4.1 | 4.4 | 3.9 |
| Asia - Middle East | -3.5 | -4.9 | -1.9 | 1.5 |
| Asia - Sth America | -4.2 | -3.0 | -3.0 | -2.1 |
| Asia - Africa | -0.1 | 1.7 | 0.8 | -1.8 |

Source: IATA PaxIS Note: historical data may be subject to revision

- The latest data show a decline in the number of jet aircraft that are expected to be delivered to Asia Pac carriers in 2019 vs 2018.

Aircraft deliveries to the Asia Pacific (1Q19 data)



Source: Ascend