

State of the region: North Asia

January 2019

Economy

GDP growth, selected countries

% change on a yr ago	2017	Q1 2018	Q2 2018	Q3 2018
China	6.9	6.8	6.8	6.7
Chinese Taipei	3.1	3.3	3.1	2.2
Hong Kong	3.8	4.6	3.5	2.9
Mongolia	5.2	6.3	6.1	6.6
Emerging Asia	6.5	--	--	--
World*	3.1	3.2	3.2	2.9

Source: Datastream * Market exchange rate basis † Estimate

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
Chinese renminbi (CNY)	6.5	7.0	7.0	6.9
Taiwanese dollar (TWD)	29.8	30.9	30.8	30.7
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tughrick (MNT)	2430	2566	2613	2640

Source: Datastream, XE

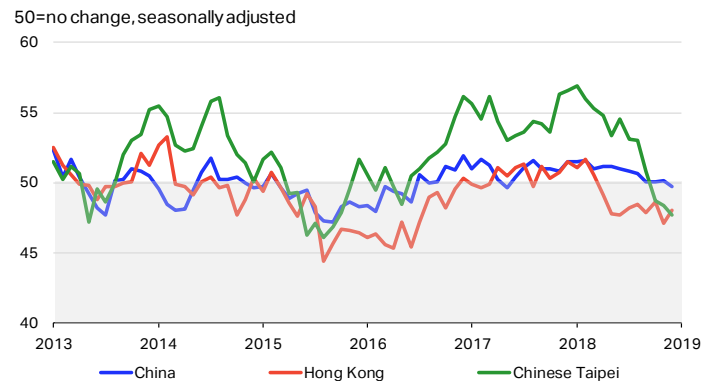
World oil and jet fuel price

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

- Although Hong Kong's business confidence ticked up a little in December, it remains subdued, reflecting a negative impact of ongoing trade war tensions.

Business confidence - manufacturing PMIs



- Sentiment in Chinese Taipei trended downwards again, signaling worsening operating conditions in the country. In China, business confidence fell below the key 50-mark for the first time in ~19mts.
- The US\$ rose by 0.2% in Dec, up ~7% over the course of the year. Amongst the main regional currencies, the CNY ended the month up a modest 1.2% vs the US\$, while the MNT fell by the same proportion. Other 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.

Market

Revenue passenger kilometers (RPKs)

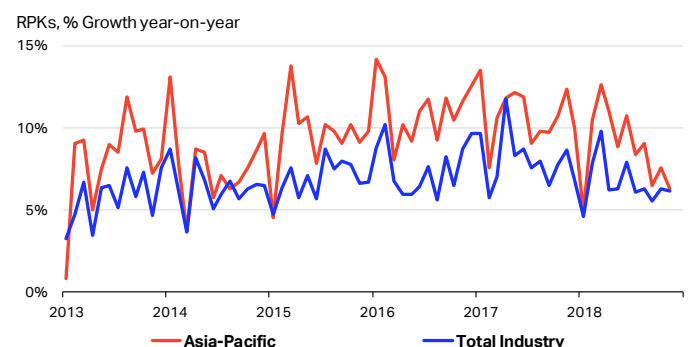
% change on a yr ago	2017	Sep-18	Oct-18	Nov-18
Region (registration basis)				
Asia Pacific	10.8	6.5	7.6	6.3
World	8.0	5.5	6.3	6.2
Routes (segment basis)				
China domestic	13.4	9.0	12.2	7.2
Asia - Europe	10.5	7.1	7.5	7.6
Within Asia	11.4	6.0	6.1	5.9
Asia - Nth America	7.2	2.0	1.7	3.4
Asia - Middle East	7.0	3.5	5.9	4.7
Asia - S/w Pacific	10.1	6.0	7.4	8.4
Asia - Africa	3.7	9.7	5.8	9.9

Source: IATA Statistics Asia-Pac incl North Asia

- 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.
- RPK growth for the AsiaPac carriers broadly converged to the industry-wide outcome, with passenger demand 6.3% higher compared to a year ago.

- Annual growth in domestic China passenger volumes slowed to 7.2% in November, from 12.2% in the previous month. This has come alongside rising concerns of a possible slowdown in the pace of economic growth within the country in 2019.
- 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.
- Demand growth was also solid in the smaller Asia-S/w Pacific and Asia-Africa markets; at 8.4% & 9.9%yoy, respectively.

Growth in air passenger volumes



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
Asia - S/w Pacific	10.7	5.7	3.1	0.3
Asia - Africa	57.8	-11.8	-3.6	-15.9

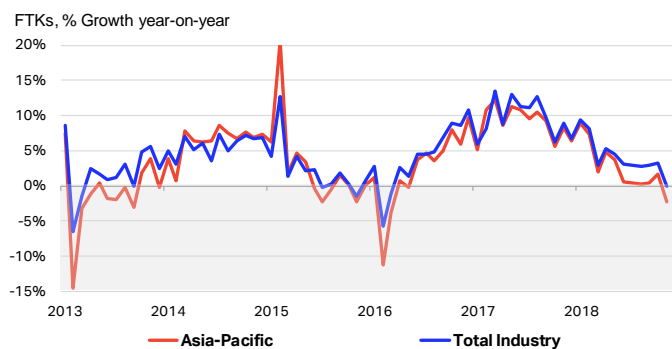
Source: IATA Statistics Asia-Pac incl North Asia

- 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.
- Across most of the region's larger international markets,

freight growth fell into negative territory this month, with the Asia-Europe & Asia-NthAm volumes down by ~1% vs a year ago and Within-Asia FTKs 6% below levels seen in November 2017.

- Of the smaller markets, Africa's freight volumes declined by ~16% vs last year, making it the key underperformer in the region this month. For Asia-S/w Pacific, FTK growth slowed for the third consecutive month, to 0.3% year-on-year.

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	2017	Sep-18	Oct-18	Nov-18
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	5.0	4.6	5.5	4.3
FLF	49.9	49.5	50.4	51.5

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 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 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% compared to 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 Asia-Pac incl Nth Asia

- Many of the region's key markets experienced a year-on-year decline in passenger yields, with Within Asia & China domestic being the key underperformers (-6.2% & -5.2%, respectively). Asia-NthAm & Asia-Middle East were the only markets that showed a gain in yields in Nov vs a year ago.

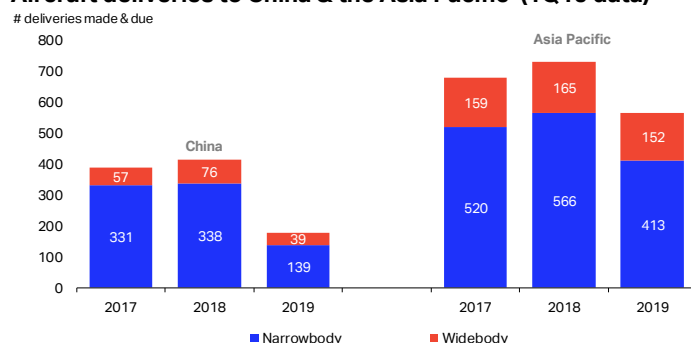
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2017	Sep-18	Oct-18	Nov-18
China domestic	-5.3	1.9	-1.9	-5.2
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

- Latest data show an expected reduction in the number of jet aircraft deliveries to both Asia Pac and Chinese airlines in 2019 vs 2018.

Aircraft deliveries to China & the Asia Pacific (1Q19 data)



Source: Ascend

Note: Asia-Pac incl North Asia