



STATE OF THE REGION: NORTH ASIA

FEBRUARY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2014	2015Q1	2015Q2	2015Q3
China	7.0	7.0	7.0	6.9
Chinese Taipei	3.7	4.0	0.6	-0.6
Hong Kong	2.5	2.4	2.8	2.3
Mongolia	7.8 [†]	4.4	3.0	--
Emerging Asia	6.8	--	--	--
World*	2.7	2.6	2.7	2.5

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2014	Nov-15	Dec-15	Jan-16
US\$ broad index	111.3	121.1	122.4	125.2
Chinese renminbi (CNY)	6.21	6.40	6.49	6.58
Taiwanese dollar (TWD)	31.6	32.6	32.9	33.4
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1887	1990	1993	2003

Source: Datastream, XE

World oil and jet fuel price

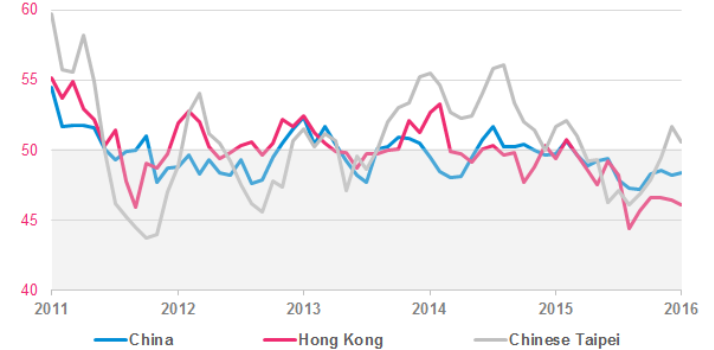
US\$/barrel	2015	Nov-15	Dec-15	Jan-16
Crude oil (Brent)	52.4	44.3	38.0	30.7
Jet fuel	64.0	55.7	45.4	39.1

Source: Platts, EIA

- Business confidence in Chinese Taipei pared back some of the strong year-end gain, with election uncertainty a contributing factor in the latest data. In Hong Kong, confidence continued to drift lower on recent soft data

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



outcomes & lingering concerns over the outlook for mainland China. For China, business confidence continued its sideways drift, consistent with that of recent months, with data providing no clear direction & despite further economic policy action.

- The US\$ began 2016 where it left off, rising 2.3% in Jan. Regionally, the CNY & TWD eased 1.3-1.5% in the month vs the USD, & the MNT was down 0.5%.
- World oil & jet fuel prices maintained their downwards trajectory in Jan. Brent crude prices fell ~19% (US\$7.30) & jet prices were down 14% (US\$6.40) in the month. Compared with levels of a year ago, prices are down ~50-55%, respectively.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2014	Oct-15	Nov-15	Dec-15
Region (registration basis)				
Asia Pacific	6.9	9.0	7.8	7.4
World	5.7	7.1	6.0	5.4
Routes (segment basis)				
China domestic	11.0	11.5	8.1	8.2
Asia - Europe	2.6	6.9	1.8	0.6
Within Asia	5.1	4.7	5.6	5.1
Asia - Nth America	4.9	8.2	8.3	5.9
Asia - Middle East	9.1	7.8	7.9	10.5
Asia - S/w Pacific	2.1	7.2	6.7	4.2
Asia - Africa	1.2	4.8	14.4	6.9

Source: IATA Statistics NB Asia-Pac incl North Asia

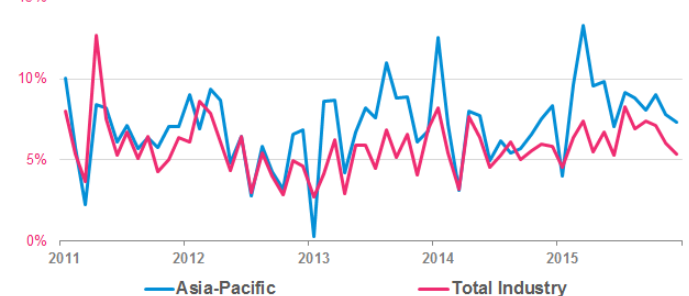
- Asia-Pac airlines ended 2015 on a solid note, having increased their level of RPKs by a brisk 7.4% over the past year, a full 2pp higher than the global industry average rate.
- RPK growth in the China domestic market was broadly unchanged in Dec, ending the year a brisk 8.2% higher in yoy terms.
- With the exception of Asia-Europe (the largest market), key international routes ended 2015 showing solid-to-strong growth, generally in the order of 5-10%yoy.

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- Asia-Europe RPK growth – at just 0.6%yoy – continues to struggle against the combined headwinds of economic slowdown in China & patchy economic activity in Europe.
- Asia-Middle East RPKs ended the year with the strongest rate of growth; up 10.5%yoy, bolstered by the network & capacity expansion of the major ME carriers.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Oct-15	Nov-15	Dec-15
Region (registration basis)				
Asia Pacific	6.3	0.2	-1.6	0.1
World	5.5	0.7	-0.8	0.8
Routes (segment basis)				
China domestic	3.5	-2.0	2.7	4.1
Asia - Europe	-0.6	-3.5	-5.5	-1.7
Asia - Nth America	9.9	-1.8	-4.1	-3.7
Within Asia	4.5	1.4	-4.6	-0.4
Asia - Middle East	10.2	5.9	0.8	1.4
Asia - S/w Pacific	1.7	8.8	5.1	9.4
Asia - Africa	8.8	-5.5	-4.6	-1.4

Source: IATA Statistics NB Asia-Pac incl North Asia

→ YoY FTK growth for the Asia-Pac carriers returned to positive territory in Dec, albeit only just. With marginal growth of 0.1%yoy, the region's FTK growth remains below the (also very weak) industry-wide figure of 0.8%.

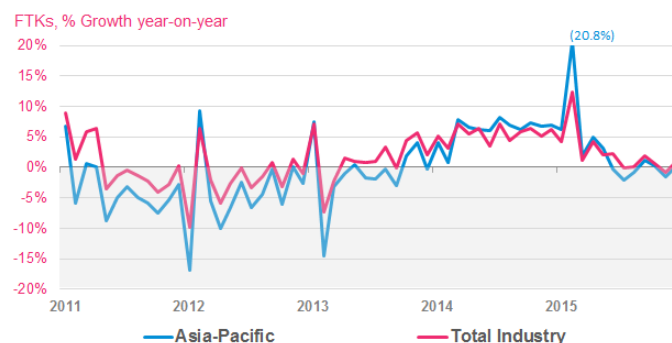
→ Unsurprisingly, there is little in the way of good news at the segment level. China domestic FTKs are the main exception, continuing their recovery in Dec, ending the

year with solid growth of 4.1%yoy.

→ Internationally, FTKs for each of the three largest markets – Asia-Europe, Asia-NthAm & Within Asia – are all lower than their level of a year ago. (Asia-S/w Pacific is growing strongly but is a relatively small market.)

→ While developments in China explain part of the regional story, more broadly, softness in world trade & demand has been weighing upon freight volumes for some time.

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	2014	Oct-15	Nov-15	Dec-15
Passenger				
Asia Pacific ASK	7.4	6.5	5.9	6.6
Asia Pacific PLF	77.2	78.6	77.7	77.8
World ASK	5.5	5.3	4.3	5.3
World PLF	79.6	80.4	78.0	78.8
Freight				
Asia Pacific AFTK	7.4	5.2	3.2	4.4
Asia Pacific FLF	55.6	54.1	56.3	53.9
World AFTK	4.4	6.4	4.6	6.5
World FLF	45.8	44.6	47.0	43.9

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

→ Asia-Pac airlines increased pax capacity by a robust 6.6%yoy to Dec, solidly above the industry rate of 5.3%. At 77.8%, the regional pax load factor is 1pp below that of the global industry average.

→ The converse holds for freight: the region's carriers have grown AFTKs by less than the industry overall (4.4%yoy compared with 6.5%) but the freight load factor is a full 10pp higher for the Asia-Pac airlines, at 53.9%.

→ The initial Q4 EBIT margin for the region's carriers is a healthy 10.1%, ~1pp higher than a year previous. But despite this improvement, the regional margin remains below the overall industry outcome of 15.3%.

Airline EBIT margins*

%revenues	2013	2014	2014Q4	2015Q4
Asia Pacific	2.3	2.8	9.2	10.1
Industry	4.1	5.2	10.2	15.3

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

→ Passenger yields in the China domestic market & on key regional routes continue to show widespread yoy declines, typically in the order of 10-15%.

→ In part, this reflects developments in world oil prices & the US\$ over the period.

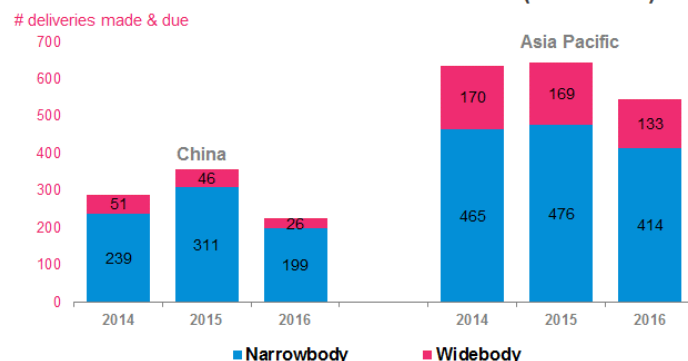
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2014	Oct-15	Nov-15	Dec-15
China domestic	-2.6	-0.5	-0.8	-1.5
Asia - Europe	-8.6	-17.1	-16.3	-15.0
Within Asia	-6.1	-8.2	-8.5	-9.6
Asia - Nth America	-10.4	-15.9	-13.0	-11.0
Asia - Middle East	-4.9	-8.9	-7.3	-6.7
Asia - Sth America	-7.5	-16.1	-15.4	-13.5
Asia - Africa	-8.9	-16.0	-14.4	-13.5

Source: IATA PaxIS

→ The current aircraft deliveries schedule points to a moderation in the number of aircraft deliveries to both China & the broader Asia-Pac region in 2016 compared with both 2014 & 2015.

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



Source: Ascend

Asia-Pac incl North Asia