STATE OF THE REGION: ASIA-PACIFIC

FEBRUARY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2014	2015Q1	2015Q2	2015Q3
India	7.2	7.5	7.0	7.4
Japan	-0.1	-1.0	0.7	1.7
Indonesia	5.0	4.7	4.7	4.7
Korea	3.3	2.4	2.2	2.7
Australia	2.7	2.1	1.9	2.5
Thailand	0.7	3.1	2.8	2.9
Malaysia	6.0	5.6	4.9	4.7
World*	**2.7**	**2.6**	**2.7**	**2.5**

* Market exchange rate basis [†] Estimate Source: Datastream

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
Japanese yen (JPY)	119.9	123.2	120.2	121.1
Australian dollar (AUD)	1.22	1.38	1.37	1.41
Sth Korean won (KRW)	1092	1157	1176	1211
Indian rupee (INR)	63.0	66.4	66.2	67.9
Indonesian rupiah (IDR)	12341	13889	13840	13804
Thai baht (THB)	32.9	35.8	36.0	35.7
Malaysian ringgit (MYR)	3.50	4.26	4.29	4.15

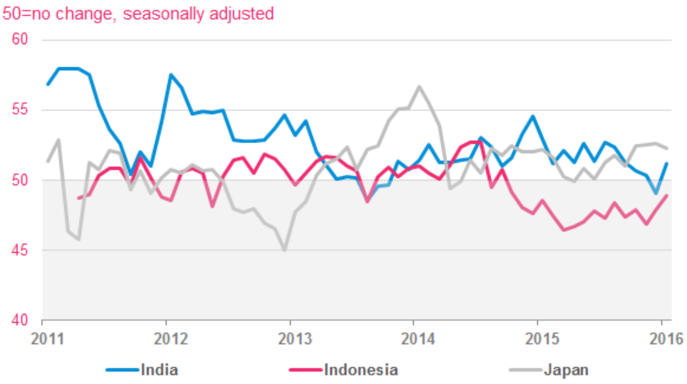
Source: Datastream, XE

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 - manufacturing PMIs



Source: Markit

- Business confidence in Japan is showing the first signs of turning down after drifting sideways for some months. In contrast, solid improvements in confidence were seen in both India & Indonesia this month.
- The US$ began 2016 where it left off, rising 2.3% in Jan. Regionally, both the AUD & KRW fell 3.0% vs the US$ in the month while the MYR & THB both rose, by 3.2% & 1.0%, respectively.
- World oil & jet fuel prices maintained their downwards trajectory in Jan. Brent crude prices were down ~19% (US$7.30) & jet prices fell 14% (US$6.40) in the month. Compared with levels of a year ago, prices are down ~50-55%, respectively..

Market

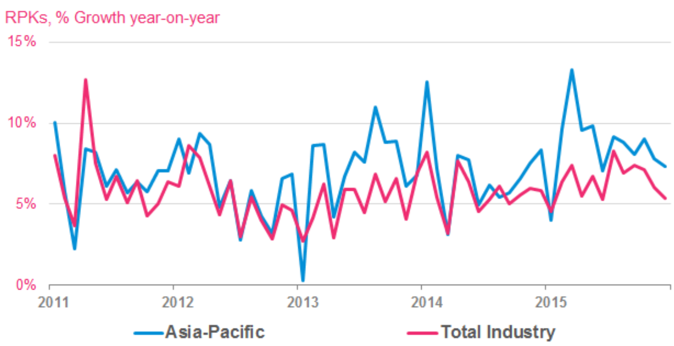
Revenue passenger kilometers (RPKs)

%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)				
India domestic	8.0	17.9	25.1	25.0
Japan domestic	3.6	3.5	-1.3	1.2
Australia domestic	2.9	-1.5	2.1	3.2
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
S/w Pacific - N/S America	0.2	7.7	2.8	11.5
Asia - Africa	1.2	4.8	14.4	6.9

Source: IATA Statistics

- Asia-Pac airlines have increased their level of RPKs by a brisk 7.4% over the past year, a full 2pp higher than the global industry average.
- RPK growth in the India domestic market maintained its exceptionally strong pace into year-end, an even 25.0% higher yoy. Supported by broadly favourable economic conditions, increased frequencies & market development have also played a key role in this growth. The more mature domestic markets in Japan & Australia are growing at a moderate 1-3%yoy pace.
- With the exception of Asia-Europe, key international routes ended 2015 showing solid-to-strong growth in the order of 5-10%yoy. Asia-Europe RPK growth continues to struggle against the headwinds of a slowdown in China & patchy economic activity in Europe.

Growth in air passenger volumes



Source: IATA Statistics

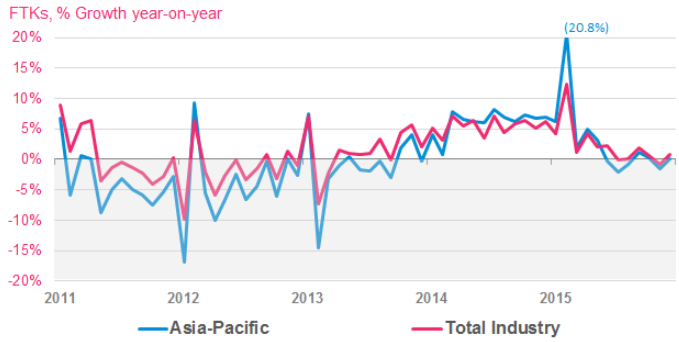
Freight tonne kilometers (FTKs)

%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)				
Japan domestic	4.7	1.7	-2.2	-2.4
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
S/w Pacific - N/S America	13.4	3.4	16.1	17.2
Asia - Africa	8.8	-5.5	-4.6	-1.4

Source: IATA Statistics

- 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 either. Japan domestic FTKs are now down 2.4% in yoy terms, compounded by a sizeable downward revision to the Nov data.
- On international routes, FTKs for each of the three largest markets – Asia-Europe, Asia-NthAm & Within Asia – are all lower than their level of a year ago.
- 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
	PLF	*77.2*	*78.6*	*77.7*	*77.8*
World	ASK	5.5	5.3	4.3	5.3
	PLF	*79.6*	*80.4*	*78.0*	*78.8*
Freight					
Asia/Pacific	AFTK	5.9	5.2	3.2	4.4
	FLF	*55.6*	*54.1*	*56.3*	*53.9*
World	AFTK	4.4	6.4	4.6	6.5
	FLF	*45.8*	*44.6*	*47.0*	*43.9*

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

- 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

- Passenger yields in the main domestic markets and on key regional routes continue to show widespread yoy declines, typically in the order of 10-15%. In part, this reflects developments in oil prices & the US$ over this timeframe.

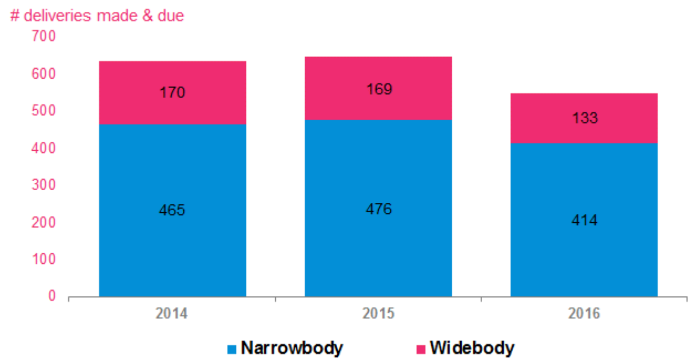
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2014	Oct-15	Nov-15	Dec-15
India domestic	23.9	-16.1	-16.5	-16.2
Japan domestic	-11.7	-4.7	-5.1	-4.9
Australia domestic	-11.1	-13.7	-0.9	-15.7
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 number of jet aircraft deliveries to the Asia-Pac region in 2016 – around 550 in total – is expected to be lower than in both 2014 & 2015.

Aircraft deliveries to the Asia Pacific (latest data)



Source: Ascend