STATE OF THE REGION: NORTH ASIA

MARCH 2016

Economy

GDP growth, selected countries

%change on a yr ago	2014	2015Q2	2015Q3	2015Q4
China	7.0	7.0	6.9	6.9
Chinese Taipei	3.7	0.6	-0.8	-0.5
Hong Kong	2.5	2.9	2.2	1.9
Mongolia	7.8†	3.0	2.5	--
Emerging Asia	6.8	--	--	--
World*	**2.7**	**2.6**	**2.5**	**2.3**

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US$	2014	Dec-15	Jan-16	Feb-16
US$ broad index	111.3	122.4	125.2	124.0
Chinese renminbi (CNY)	6.21	6.49	6.58	6.56
Taiwanese dollar (TWD)	31.6	32.9	33.4	33.2
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tughrik (MNT)	1887	1993	2003	2030

Source: Datastream, XE

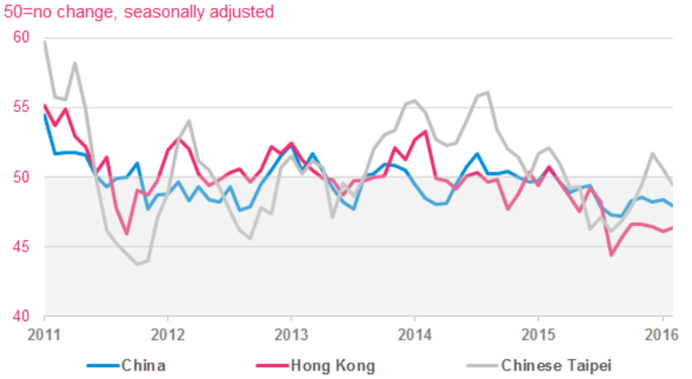
World oil and jet fuel price

US$/barrel	2014	Dec-15	Jan-16	Feb-16
Crude oil (Brent)	99.0	44.3	38.0	30.7
Jet fuel	113.3	55.7	45.4	39.1

Source: Platts, EIA

- The latest data for business confidence in Chinese Taipei showed a further modest easing this month, slipping back below the Index level of 50. Sentiment data for both China & Hong Kong have been moving broadly sideways in recent months, but at relatively low levels.

Business confidence - manufacturing PMIs



Source: Markit

- Supported by other indicators, these data reaffirm concerns surrounding the economic outlooks for these important regional economies.
- The US$ eased a little in Feb, down ~1% overall. Regionally, currency fluctuations were minor, the most notable being a 1.3% decline in the MNT vs the US$.
- World oil & jet fuel prices ended Feb down 6-7%, having dipped below the US$30 & US$40 benchmarks respectively. Prices have rebounded somewhat over recent weeks on expectations of tighter supply, but it remains to be seen whether the gains can be sustained

Market

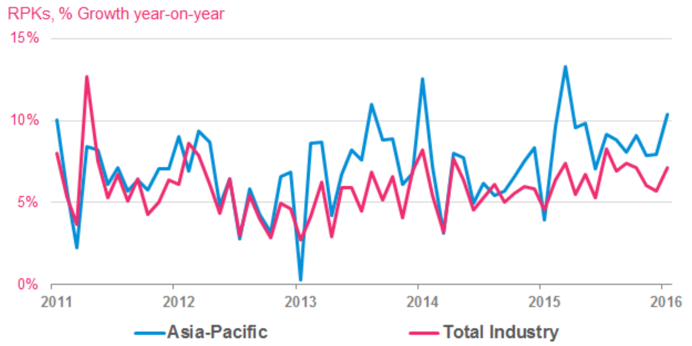
Revenue passenger kilometers (RPKs)

%change on a yr ago	2014	Nov-15	Dec-15	Jan-16
Region (registration basis)				
Asia Pacific	6.9	7.9	7.9	10.4
World	5.7	6.0	5.7	7.1
Routes (segment basis)				
China domestic	11.0	8.1	9.8	11.9
Asia - Europe	2.6	1.8	0.6	3.1
Within Asia	5.1	6.2	5.6	10.0
Asia - Nth America	4.9	8.3	5.6	9.1
Asia - Middle East	9.1	7.9	10.5	7.5
Asia - S/w Pacific	2.1	6.7	4.2	4.1
Asia - Africa	1.2	14.4	6.9	11.3

Source: IATA Statistics NB Asia-Pac incl North Asia

- RPK growth for the Asia-Pac airlines accelerated in Jan, rising to a strong 10.4%yoy & widening the gap above the overall industry growth rate of (a still robust) 7.1%yoy.
- The growth rate of traffic volumes in the China domestic market trended higher again in Jan, with RPKs almost 12% above their level of a year ago.
- Of the larger markets, Within Asia is the standout, with traffic growth lifting to a double-digit yoy pace in Jan.
- Not far behind & also experiencing a lift this month is Asia-NthAmerica, with growth of 9.1%yoy.
- Asia-Middle East RPKs eased back a little to 7.5%yoy while tentative signs of life emerged in Asia-Europe (3.1%yoy).

Growth in air passenger volumes



Source: IATA Statistics

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Freight tonne kilometers (FTKs)

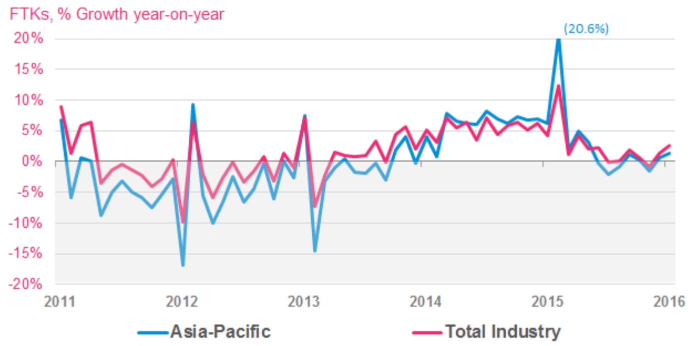
%change on a yr ago	2014	Nov-15	Dec-15	Jan-16
Region (registration basis)				
Asia Pacific	6.3	-1.6	0.7	1.3
World	5.5	-0.9	1.4	2.7
Routes (segment basis)				
China domestic	3.5	2.7	5.0	13.9
Asia - Europe	-0.6	-5.5	-1.7	1.6
Asia - Nth America	9.9	-4.1	-4.4	-6.4
Within Asia	4.5	-4.6	-0.4	1.6
Asia - Middle East	10.2	0.8	1.4	6.4
Asia - S/w Pacific	1.7	5.1	9.4	7.2
Asia - Africa	8.8	-4.6	-1.3	16.6

Source: IATA Statistics NB Asia-Pac incl North Asia

- At odds with developments in the passenger market, growth in freight volumes remain much more subdued at both the industry (2.7%yoy) & regional (1.3% for Asia-Pac airlines) level.
- While the air freight market remains challenging, industry volumes improved over 2H15 & into the start of 2016.
- At the segment level, outcomes remain patchy, with no clear broad-based improvement evident to date.

- China domestic FTKs surged in Jan & are now up 14%yoy. We caution that the regional data can be especially volatile at this time of year.
- Amongst key inter-regional markets, Asia-Europe & Within Asia both returned to positive yoy growth this month, with FTKs for both up a modest 1.6%yoy.
- Asia-Middle East freight volumes have also recovered & are now up 6.4% on a year ago. However, volumes for Asia-NthAmerica are down by the same magnitude.

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	Nov-15	Dec-15	Jan-16
Passenger					
Asia Pacific	ASK	7.4	5.9	6.9	7.9
	PLF	*77.2*	*77.8*	*78.0*	*78.5*
World	ASK	5.5	4.3	5.4	5.6
	PLF	*79.6*	*78.0*	*78.9*	*78.8*
Freight					
Asia Pacific	AFTK	7.4	3.2	4.6	5.9
	FLF	*55.6*	*56.3*	*54.1*	*49.8*
World	AFTK	4.4	4.5	6.9	7.0
	FLF	*45.8*	*47.0*	*44.0*	*41.3*

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 have increased pax capacity by a brisk 7.9%yoy, well above the 5.6% industry rate. The pax load factors are broadly similar at 78.5% & 78.8%.
- Regional AFTKs are up 5.9%yoy, below the industry growth rate of 7.0%. The Asia-Pac FLF slipped below 50% in Jan, but nonetheless continues to easily outperform the industry average of 41.3%.
- The latest Q4 EBIT margin for Asia-Pac carriers is solid at 8.4%; above the level of a year ago, but below the overall industry outcome of 10.9%.

Airline EBIT margins*

%revenues	2013	2014	2014Q4	2015Q4
Asia Pacific	2.3	2.8	6.0	8.4
Industry	4.1	5.2	7.1	10.9

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

- With the exception of the China domestic market, passenger yields on key regional routes continue to show widespread declines, influenced by developments in fuel prices & the US$.

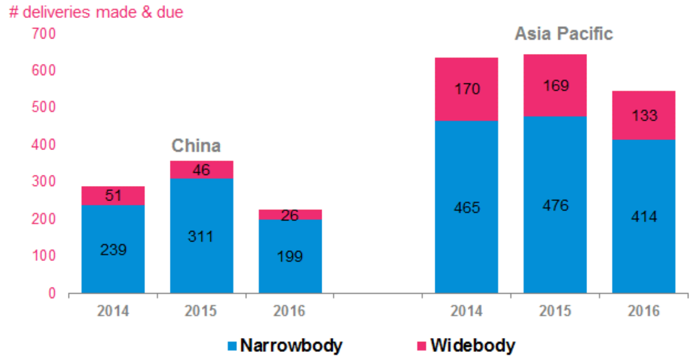
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2014	Nov-15	Dec-15	Jan-16
China domestic	-2.6	-0.8	-1.5	1.9
Asia - Europe	-8.6	-16.3	-15.0	-15.9
Within Asia	-6.1	-8.5	-9.6	-9.4
Asia - Nth America	-10.4	-13.0	-11.0	-11.0
Asia - Middle East	-4.9	-7.3	-6.7	-8.3
Asia - Sth America	-7.5	-15.4	-13.5	-12.8
Asia - Africa	-8.9	-14.4	-13.5	-11.9

Source: IATA PaxIS

- The latest aircraft deliveries data continue to point to a moderation in the number of deliveries to both China & the Asia-Pac region in 2016 compared with 2015.

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



Source: Ascend

Asia-Pac incl North Asia