

State of the region: North Asia

June 2020

Economy

GDP growth, selected economies

% change on a yr ago	2019	Q3 2019	Q4 2019	Q1 2020
People's Republic of China	6.1	6.0	6.0	-6.8
Chinese Taipei	2.7	2.8	3.6	1.9
Hong Kong (SAR), China	-1.2	-2.8	-3.0	-8.9
Mongolia	4.9	4.2	1.8	-10.5
Emerging Asia	5.5	--	--	--
World*	2.5	2.5	2.4	-1.7

Source: Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2019	Mar-20	Apr-20	May-20
US\$ broad index	114.7	122.8	122.7	121.3
Chinese renminbi (CNY)	6.96	7.08	7.08	7.13
Taiwanese dollar (TWD)	30.0	30.2	29.7	30.0
Hong Kong dollar (HKD)	7.79	7.75	7.75	7.75
Mongolian tughrig (MNT)	2740	2775	2788	2811

Source: Datastream

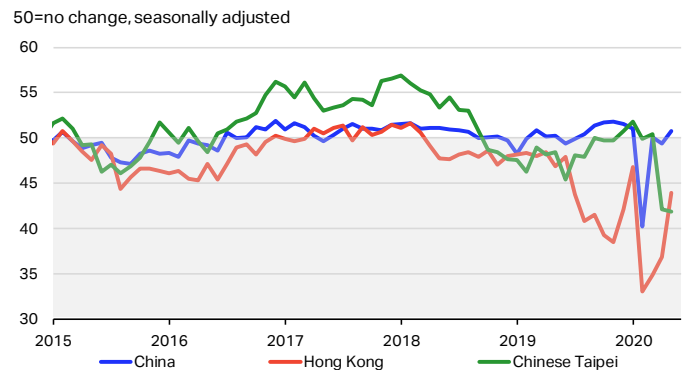
World oil and jet fuel price

US\$/barrel (period ave.)	2019	Mar-20	Apr-20	May-20
Crude oil (Brent)	64.2	33.9	26.8	32.4
Jet fuel	79.6	40.1	23.1	29.6

Source: Platts, Datastream (monthly average data)

- China's business confidence moved into territory associated with expansion in the manufacturing sector as the country's economy continues to recover from the COVID-19 shock.

Business confidence - manufacturing PMIs



- Despite the improvement from April, operating conditions remained under significant pressure in Hong Kong amidst concerns about the economic outlook. In Chinese Taipei, business sentiment fell further, reflecting plunging export orders.
- The trade weighted US dollar index fell by 1.1% in May. Amongst the key regional currencies, the TWD lost 1% against the US\$ and the CNY & MNT ended the month down 0.8%.
- The crude oil price rose in May on OPEC+ supply cuts and slower growth in US shale oil production. The jet fuel price also picked up as some restrictions began to be lifted and fuel demand started to recover.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2019	Feb-20	Mar-20	Apr-20
Region (registration basis)				
Asia Pacific	4.8	-42.0	-64.4	-88.5
World	4.2	-14.9	-55.4	-94.3
Routes (segment basis)				
China domestic	8.0	-84.8	-68.7	-66.6
Asia - Europe	6.6	-20.4	-66.7	-98.3
Within Asia	6.4	-42.0	-82.4	-98.8
Asia - Nth America	2.0	-32.6	-72.8	-97.1
Asia - Middle East	3.5	-6.2	-55.0	-98.6
Asia - S/w Pacific	6.0	-28.2	-60.8	-98.2
Asia - Africa	5.0	-34.2	-64.7	-99.0

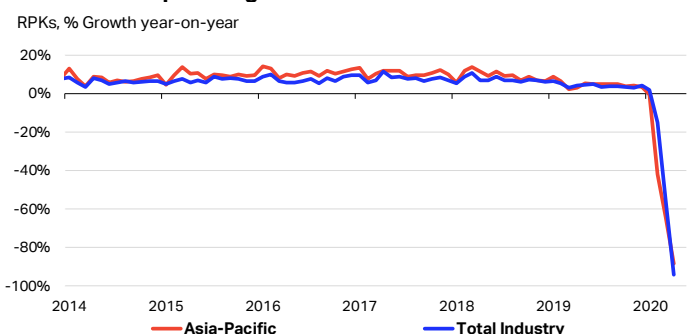
Source: IATA Economics. Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) fell by 94.3% year-on-year in April, the largest contraction in recent history amidst widespread border closures and lockdowns linked to COVID-19. A modest improvement is expected in coming months as countries start to lift their restrictions.
- Airlines based in Asia Pacific registered an 89% annual

contraction in RPKs – a significant deterioration from the 64%yoy decline in March.

- The majority of the region's key markets posted decline close to 100% as domestic and international aviation came to a standstill in April.
- Domestic China RPKs fell by ~67%yoy – a pace broadly unchanged from March, but an improvement from the -85% trough in February. The market's tentative recovery reflects the resumption of domestic flights and the lifting of restrictions in the country as the number of confirmed cases fell close to zero.

Growth in air passenger volumes



Cargo tonne kilometers (CTKs)

% change on a yr ago	2019	Feb-20	Mar-20	Apr-20
Region (registration basis)				
Asia Pacific	-5.6	-1.7	-18.6	-31.0
World	-3.2	-1.6	-14.7	-27.7
Routes (segment basis)				
Asia - Europe	-1.6	-6.3	-20.2	-27.8
Asia - Nth America	-3.7	-1.7	-5.7	-7.3
Within Asia	-7.4	11.0	-16.7	-38.6
Asia - Middle East	-2.7	2.3	-18.6	-42.8
Asia - S/w Pacific	-5.2	0.6	-19.8	-59.1
Asia - Africa	12.0	6.9	8.6	-1.0

Source: IATA Economics. Asia-Pac incl North Asia

- The decline in industry-wide cargo tonne kilometres (CTKs) accelerated to 27.7% year-on-year in April amidst subdued demand compounded by the disruption in global manufacturing activity from the COVID-19 shock.
- Airlines based in the Asia Pacific region saw a 31% year-on-year contraction in air cargo volumes in April.

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2019	Feb-20	Mar-20	Apr-20
LF: % of ASK/ACTK					
Passenger					
Asia Pacific	ASK	4.5	-29.6	-49.1	-82.5
	PLF	81.9	68.3	57.2	53.8
World	ASK	3.4	-9.4	-38.2	-87.0
	PLF	82.6	75.8	59.2	36.6
Cargo					
Asia Pacific	ACTK	1.0	-17.8	-31.0	-48.3
	CLF	52.3	54.7	65.4	69.1
World	ACTK	2.2	-3.8	-20.1	-42.0
	CLF	46.7	45.9	53.1	58.0

Source: IATA Economics. Asia-Pac incl North Asia. LF= load factor. ASK=available seat kms. ACTK=available cargo tonne kms.

- Although airlines placed around half of their fleet into storage in April, passenger demand continued to fall faster than capacity. As a result, the industry-wide passenger load factor declined by 47ppts year-on-year. The PLF for Asia Pacific carriers fell by 28ppts.
- In contrast, cargo capacity fell significantly faster than demand due to the lack of belly capacity, and the cargo load factor rose by a record 11.5ppts annually. At the regional level, Asia Pacific airlines posted a CLF 17ppts higher than in April 2019.
- Q1 2020 results confirm the severity of COVID-19 for airline financials, as the outbreak became global. The industry-wide EBIT margin was -12.3% of revenues, down from 5.1% in the same quarter a year ago.

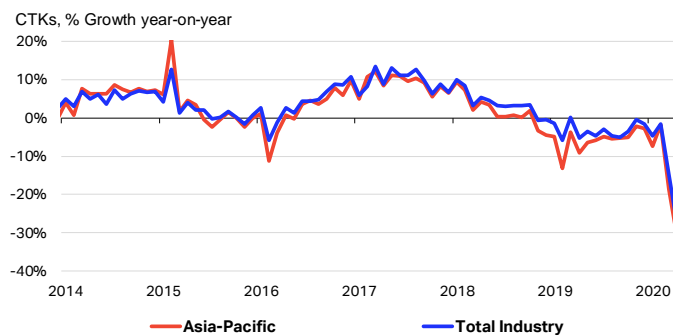
Airline operating (EBIT) margins*

% revenues	2018	2019E	2019Q1	2020Q1
Asia Pacific	4.7	3.7	7.9	-18.4
Industry	5.7	5.2	5.1	-12.3

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

- The tentative rebound in the Chinese manufacturing sector and the region's important role in the production of medical equipment underpinned the growth result on the larger Asia-Nth.Am market.
- As was the case in March, the smaller Asia-Africa market posted the most resilient CTK outcome, -1%yoy. In contrast, another smaller market, Asia-S/w Pacific was the worst performer on this occasion, registering a 59% annual decline in April.

Growth in air cargo volumes



Source: IATA Economics

Asia Pacific airlines recorded an EBIT margin of -18.4%, compared to 7.9% in the same period of 2019.

- April passenger yield data (in US\$) provided a less representative estimate than we would typically expect due to a dramatically smaller number of tickets being sold. Therefore, the data need to be interpreted with more than the usual degree of caution on this occasion.

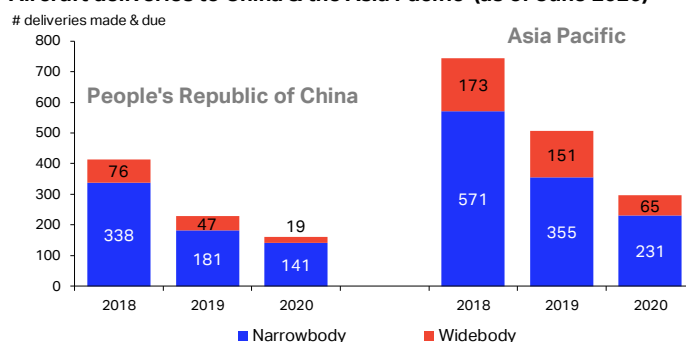
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Feb-20	Mar-20	Apr-20
China domestic	-6.1	-13.7	-29.9	-32.0
Asia - Europe	-7.7	-5.9	-18.4	-14.6
Within Asia	-4.5	-17.0	-22.2	-23.8
Asia - Nth America	-2.6	3.6	-11.0	1.9
Asia - Middle East	7.7	-0.2	-9.8	-2.3
Asia - Sth America	-7.8	-4.4	-13.0	2.0
Asia - Africa	-5.8	-1.5	-0.3	55.8

Source: DDS Note: historical data may be subject to revision

- The latest data point to a fall in the number of jet aircraft deliveries scheduled for both Chinese and Asia Pacific airlines in 2020 compared to 2019.

Aircraft deliveries to China & the Asia Pacific (as of June 2020)



Source: Ascend

Note: Asia Pacific includes North Asia