SMBC AVIATION CAPITAL

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Plane insights

Commercial Aviation Market Intelligence



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Strategic & Market Analysis – SMBC Aviation Capital

Summary

As we publish this at the end of October the war in Iran continues to shape the global environment. Oil has pushed up to the c.$100 per barrel mark, inflation has proven sticky and central banks have turned to tightening. Bond yields have followed, with US and Japanese yields at their highest in over two decades, with European nations experiencing similar trends. We take a closer look at Japan, a cornerstone of aviation finance, which is experiencing a weak yen and more attractive domestic yields.

The oil shock has not been felt equally. Exchange rates and local jet fuel prices have amplified costs in Japan and India, while Brazil and Mexico have benefited on both fronts. For airlines, the cost of refining matters more than the price of crude. The crack spread more than tripled at its peak, and its average since 2022 is more than double the pre-Covid level as refining capacity declines.

On aircraft supply, lessors continue to finance the majority of new deliveries, but the mix is shifting. Direct placements from lessor orderbooks have risen to the strongest share in a normal demand environment, while Sale-Leasebacks have eased to their lowest share in 15 years, to date. Only a handful of lessors can feed the direct placement market, with three accounting for almost half of orderbook deliveries.

The war drove the sharpest monthly jump in storage since the pandemic, concentrated in Middle East widebodies, but also one of the fastest reversals. Storage rates are now below pre-war levels and utilisation has turned positive year-on-year. However, elevated fuel prices mean reactivation favours new-technology aircraft.

We also look at connectivity through the lens of urbanisation. Despite the oil shock and Middle East airspace closures, global city pairs reached a record this summer. Airlines trimmed frequencies and downgauged rather than cutting markets, underscoring the resilience of air travel to geopolitical shocks. Passenger demand remains robust.

Finally, on the airline side, we examine consolidation. Although it is usually told as a US story, European fleet concentration has risen faster since 2000, through a holding-company model that keeps individual brands flying. With SAS and TAP moving into the orbit of major groups, lessors are increasingly dealing with the group rather than the airline.

Macro Environment

Persistently high energy prices and sticky inflation have pushed major central banks into tightening while global bond yields have risen to their highest in decades. Meanwhile, equity markets remain strong and Purchasing Managers Indices (PMI) indicate further expansion of the private-sector economy. For the macro section this quarter we look at interest rates, bond yields and exchange rates, focusing on the US and Japan.

Recent months marked a decisive turn in monetary policy across major central banks. The continuation of the Iran war pushed oil back above $100 per barrel, causing inflation to remain sticky and ending any expectations of further easing. The US Federal Reserve raised rates by 25bp in September, its first hike since July 2023 and the first move under Chair Kevin Warsh. The ECB hiked for the second time this year after euro area inflation reached a three-year high, while the Bank of Japan lifted its policy rate to its highest in 31 years.

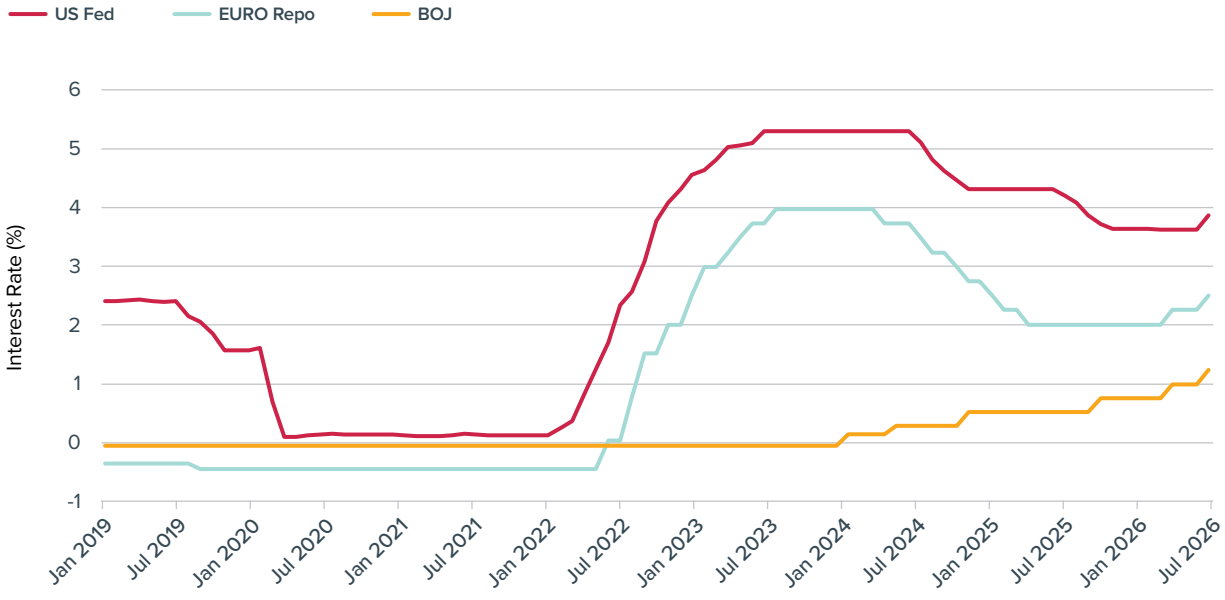
The hiking of central bank rates, combined with elevated inflation has increased the premium that bond investors are demanding for holding long-term debt. This is a global phenomenon, 10-year treasuries in the US are the highest since 2002, in Japan the highest since 1996. Similarly in Europe 10-year UK gilts are at their highest since 2007 and the German Bund at its highest since 2009.

The common theme between the US and Japan is inflation risk and government deficits but there are some differences. In the US there is competition for capital from the AI investment boom while in Japan the BOJ is buying fewer bonds and domestic institutions have less appetite for long-dated debt.

Higher yields flow through to lessor funding costs, but unevenly. Investment-grade lessors face mainly higher base rates, while non-IG lessors face both higher base rates and wider credit spreads.

Japan is one of the most important countries in aviation finance. As one of the world's largest overseas investors and the largest foreign holder of US Treasuries, Japan's capital influences the global cost of money. The JOL and JOLCO markets are key sources of aircraft equity, while Japanese banks are important lenders and, in some cases, investors in lessor platforms.

Figure 1. Interest Rates

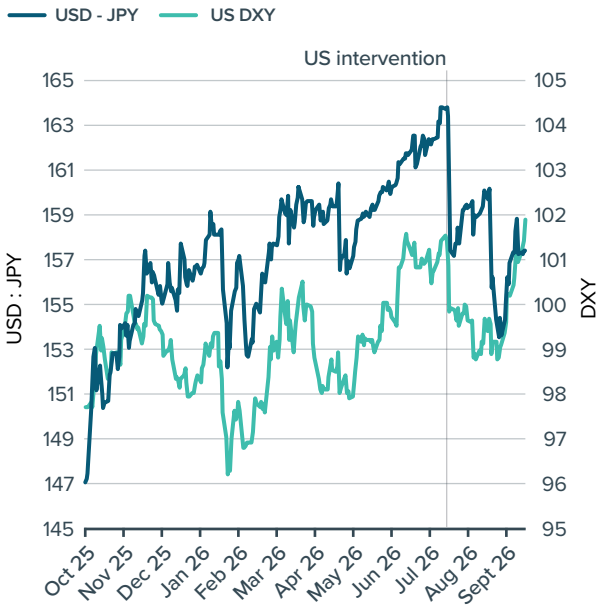


Source: Bloomberg

Macro Environment (continued)

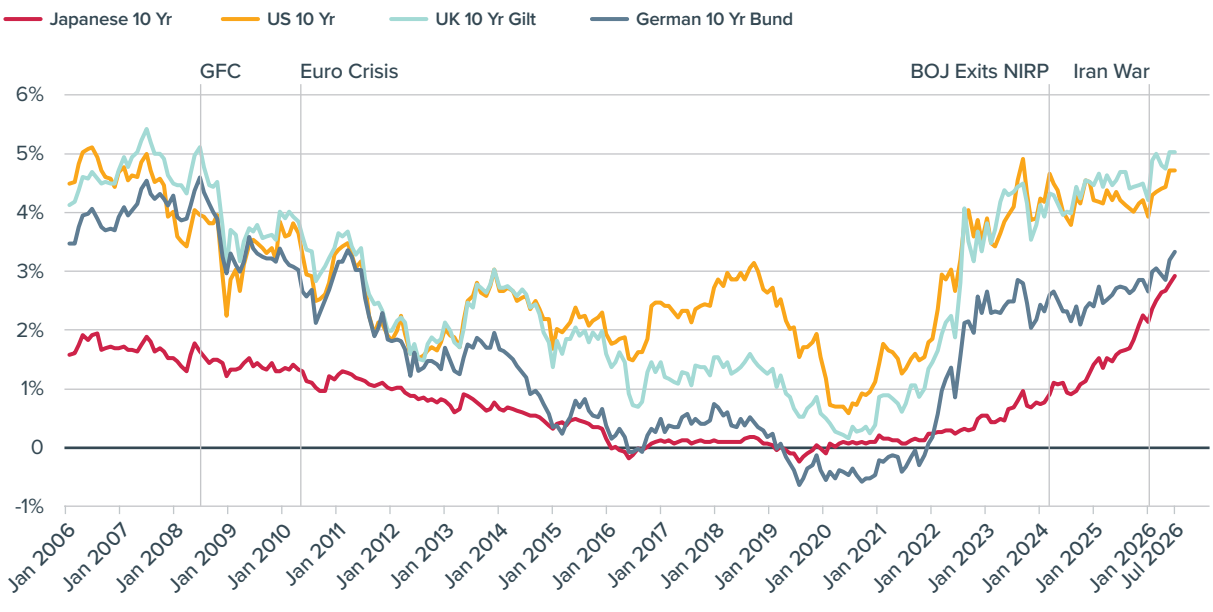
While a weak yen makes dollar-priced aircraft relatively more expensive for JOL and JOLCO investors, some investors have continued to invest by looking to buy smaller or older aircraft. While Japanese government bonds yields above 3% may now offer investors an attractive domestic alternative, there is no evidence of any major decline in investor demand. A sustained yen recovery would support one of aviation's most important sources of equity.

Figure 3. USD:JPY



Source: Bloomberg

Figure 2. Bond Yields



Source: Bloomberg

Oil

Oil price volatility does not impact all regions equally. As jet fuel is predominantly priced in US dollars while many airlines generate revenues in non-USD, exchange-rate movements can amplify or mitigate the impact. In addition, differences in local jet fuel prices mean that oil prices do not increase equally across the globe. Linking back to our discussion on the yen, Japan is one of the most severely impacted regions driven by the performance of its currency but also by an elevated local jet fuel price.

As seen in the chart, India also experienced this double-hit. China suffered from higher local jet fuel prices though these were partly offset by a stronger renminbi. Meanwhile, Brazil and Mexico saw both movements go in their favour.

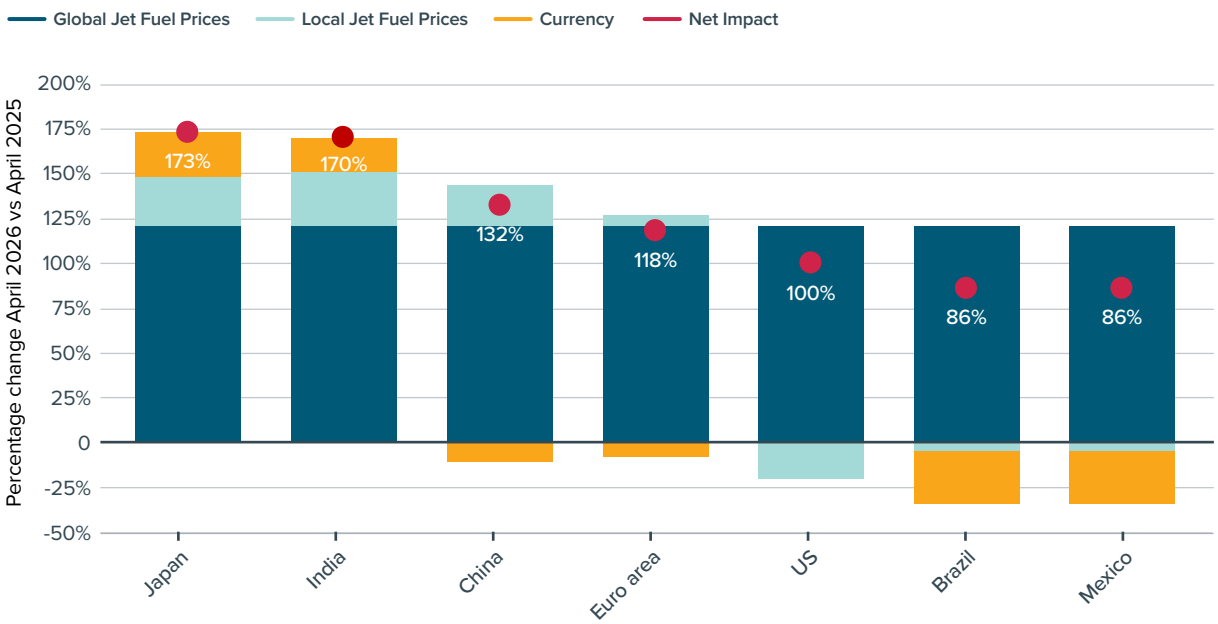
Beyond these regional effects, two forces have shaped the market this year — the security of Gulf supply and the cost of refining — both of which we cover below.

Stepping back to take a wider view of the oil market, there is pessimism that Iran and the US will reach a deal to end hostilities and reopen the Strait of Hormuz before the November midterm elections — leaving both the supply and the price of oil exposed in the interim. In terms of supply from the region the oil market has learned that supply keeps finding a way out as oil traders have commented that there is not the kind of sustained repricing, you'd expect if traders thought physical supply was about to deteriorate materially. Risks remain, of course.

Following a drone attack on the East-West pipeline in Saudi Arabia, flows have restarted but remain susceptible to further disruption. The UAE also uses a similar bypass to Fujairah shipping around 1.8m b/d. Flows through Hormuz now roughly 80% of pre-war levels but number of ships still much reduced – vessels remain 80% below but oil supply through the Strait has recovered to 80% of pre-war normal; much smaller number of larger tankers shuttling oil back and forth, often under military protection. Overall, a credible US-Iran deal could shave as much as $15 off prices.

A wider issue that will impact future supply and pricing is the depletion of national strategic petroleum reserves. In the US, reserves sit at their lowest in 43 years, and roughly a quarter of what remains may be undrawable owing to equipment outages. That structural vulnerability sits with an otherwise well-supplied near-term market, Fitch expects the global market to return to surplus, driven by higher Middle East production and exports alongside ramp-ups from both OPEC and non-OPEC producers.

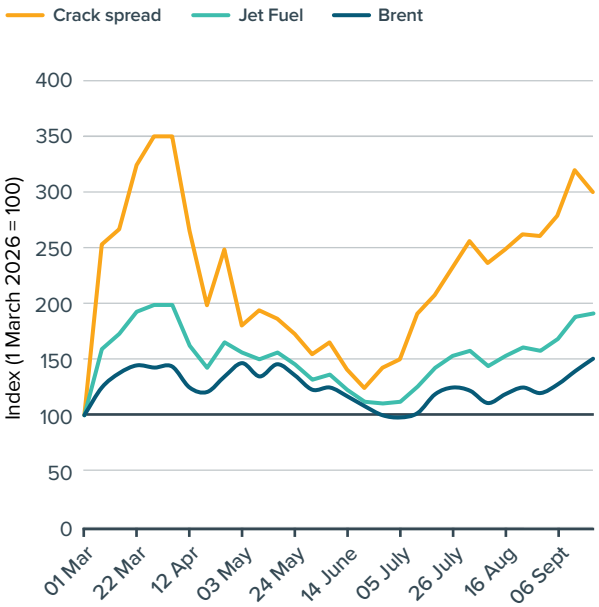
Figure 4. Currency Impact on Fuel Price



Source: IATA

Oil (continued)

Figure 5. Evolution of Price Since Onset of War

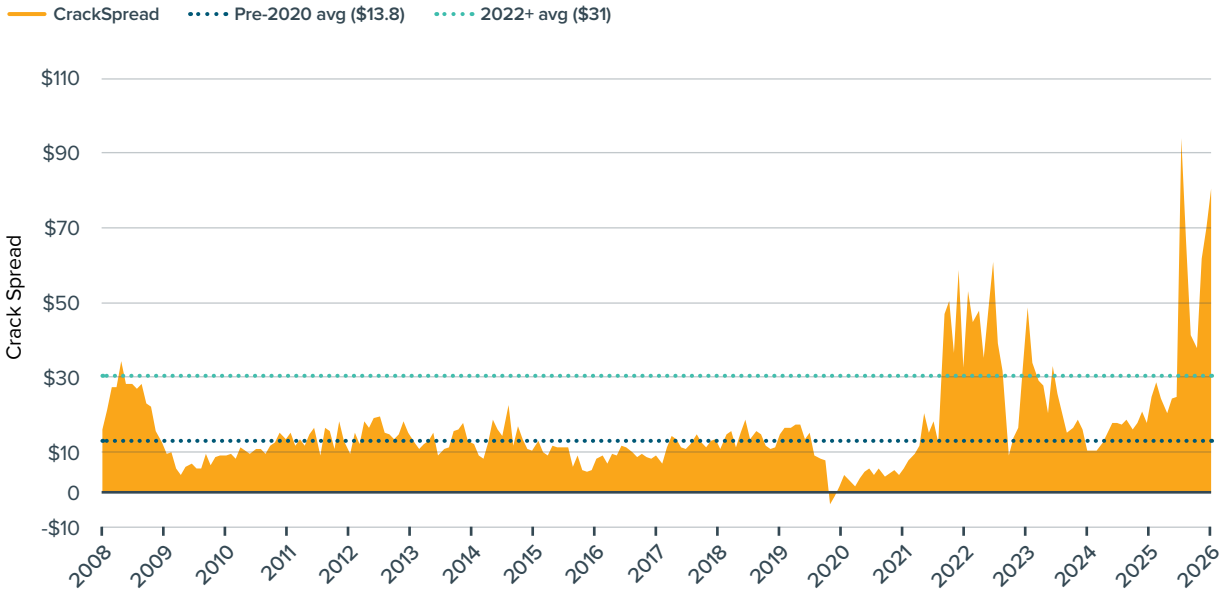


Source: Bloomberg

The cost of refining, or crack spread, has been more impactful for airlines than the underlying cost of Brent. As the chart shows, the underlying Brent price rose far less sharply than the crack spread, which spiked to more than three times its starting level before easing. The average crack spread since 2022 has more than doubled versus the pre-Covid average, compounded by high levels of volatility. A consistent decline in refining capacity, particularly in developed economies has intensified supply concentration risks with some traditional exporters becoming net importers. Diesel, meanwhile, continues to underpin wider middle-distillate prices: with diesel crack spreads remaining wider than jet fuel margins, refiners are incentivised to prioritise the more profitable product — keeping jet supply tight. This increasingly supports the value proposition of New-Tech aircraft and is accelerating the transition from previous technology with inferior fuel burn and higher fuel costs to aircraft like the A320neo and Boeing MAX aircraft.

On a positive note, there is some underlying softening as the peak northern hemisphere travel season winds down and product inventories rise. This has prompted some forecasts of downward pressure on prices through the remainder of the year.

Figure 6. Crack Spread



Source: Bloomberg

Aircraft Supply

Through the first three-quarters of 2026 lessors have financed the majority of new deliveries, as they have across the past decade and a half. Lessors have financed 58% of deliveries either through direct placement or via Sale Lease Back (SLB) leaving airlines to self-finance the remaining 42%. This sits comfortably within the historical band which ranges from the low 50's to a Covid peak of 70%

However, the composition shifted in 2026, direct placements are at 28%, the highest since the 2019-2021 window and well above the 19% of the early 2010's. That earlier peak was a distressed one, as airlines shed balance-sheet risk through the pandemic; 2026 is the strongest in a normal demand environment.

Lessors are increasingly originating aircraft via direct placement through their orderbooks rather than acquiring them after the fact. However, there are only a limited number of lessors who can feed this market. There are currently 175 operating lessors (classified as at least one aircraft under management) but only twenty of which delivered aircraft from their orderbook this year. This was highly concentrated with three lessors accounting for almost 50% of those deliveries – including SMBC Aviation Capital.

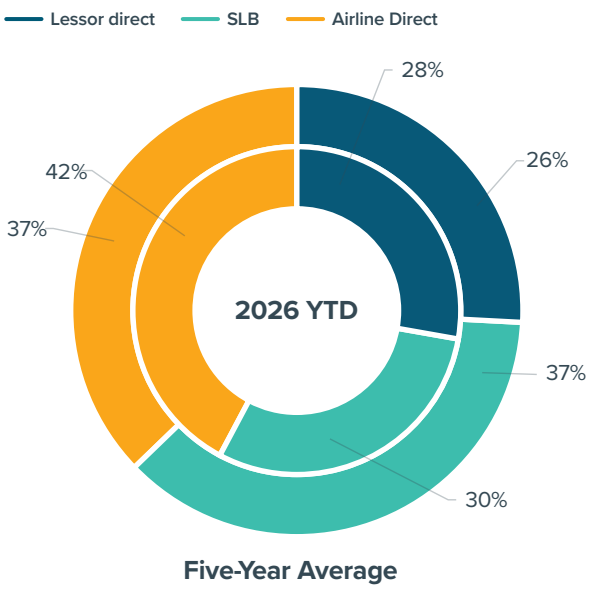
The direct placement dynamic contrasts with the SLB market which eased to 30% in 2026, below its long run range of 33-41%, and the lowest across the 15 years of analysis. SLB does remain the largest channel by units, but the momentum in 2026 sits with direct placement.

Lessor financing is overwhelmingly a narrowbody one. The 737 MAX and A320neo family account for most deliveries and lessors are deeply embedded here, accounting for two-thirds of all deliveries. While the A320neo and 737 MAX are evenly split across financing methods there is divergence between the two Airbus models. The A321neo skews heavily towards SLB (38% vs 21% direct) compared to the A320neo at 33% SLB and 34% direct placement.

Widebodies remain a balance-sheet business. The 787 and A350 are strongly airline financed with no direct placements of the A350. Lessors will take widebody exposure against airline credit but play a minimal role in originating new deliveries.

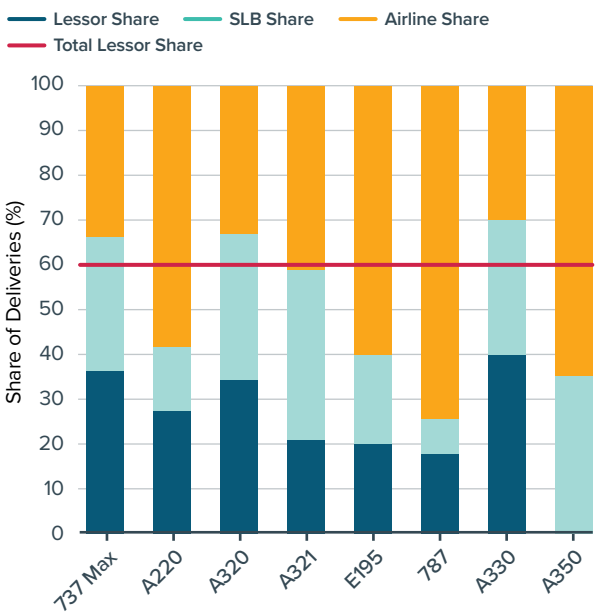
Overall, lessors' grip on new-aircraft financing remains strong but in 2026 its character is shifting a little, away from SLB and more to direct placement.

Figure 7. New Delivery Financing



Source: Cirium Fleets Analyzer, SMBC Aviation Capital analysis

Figure 8. Financing by Asset Type



Source: Cirium Fleets Analyzer, SMBC Aviation Capital analysis

Storage and Utilization

The onset of the US–Iran war in late February 2026 drove the sharpest single-month jump in aircraft storage since the pandemic, but, reassuringly, one of the faster reversals. The widebody storage rate spiked by c.3% at onset, against a c.1% increase for narrowbodies. The greater share of stored widebodies is unsurprising due to the higher concentration of widebodies in the Middle East directly impacted by airspace closures.

However, by October both had fallen below their pre-war base as capacity returned through the summer schedule. Crucially, this recovery occurred while the Strait of Hormuz remained effectively closed and no formal end to the war.

Taking it another step, if we rebase the storage rate by region from the month prior to the onset of the war it shows the shock was almost entirely a Middle East event, the region's storage rate spiked in February before dropping back to roughly pre-war by October. While other regions may not have been directly impacted by the war, they were certainly impacted by the fuel price spike which led to some marginal capacity being removed.

While we did see some marginal uptick in storage in some regions the overall story is steady drawdown — Europe furthest, to an index near 73.

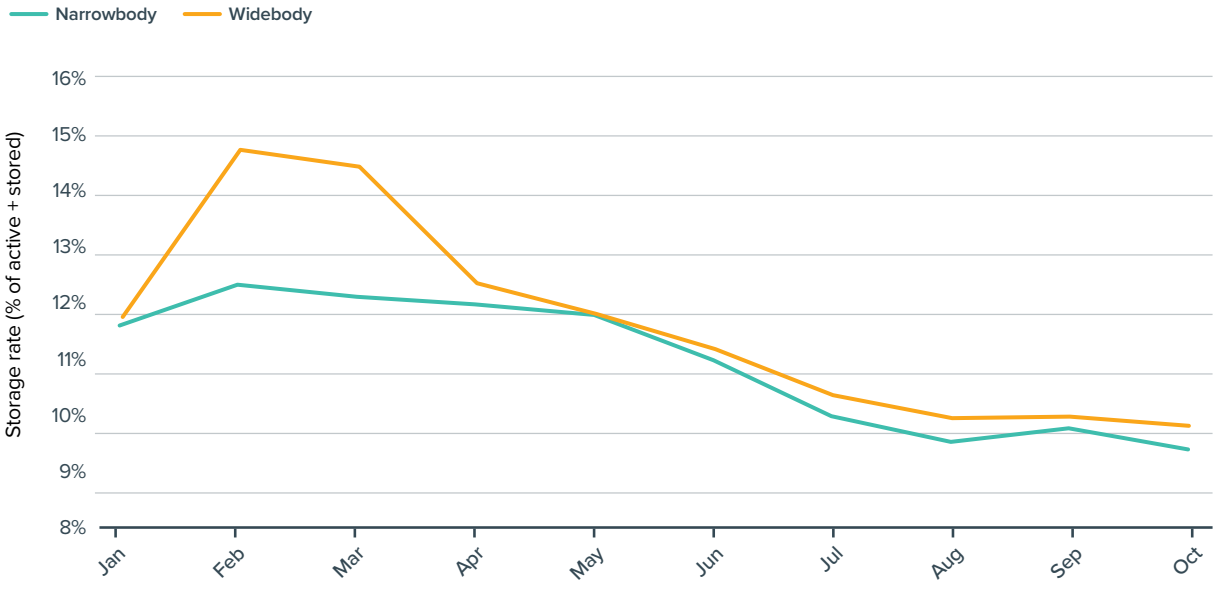
However, as we transition into the winter season in an elevated fuel environment the global storage rate may increase as airlines trim capacity and routes.

Long range narrowbody aircraft can be a mitigant versus more widebodies as they have the flexibility to be deployed on thinner or shorter routes.

Turning to utilisation, total tracked passenger hours turned positive, up just over 1% year-on-year in July, having troughed near −2% in the spring. Average utilisation still sits below 2025, and the twin-aisle deficit is closing only slowly (−3% by June, from −7% in March). Due to elevated fuel prices the reactivation favours new-tech aircraft, leaving previous-generation types such as the A320ceo, 737NG and A330 down 4-6%.

Both the recovery in storage rate and utilization indicate demand resilience under sustained stress, capacity has normalised around an ongoing disruption.

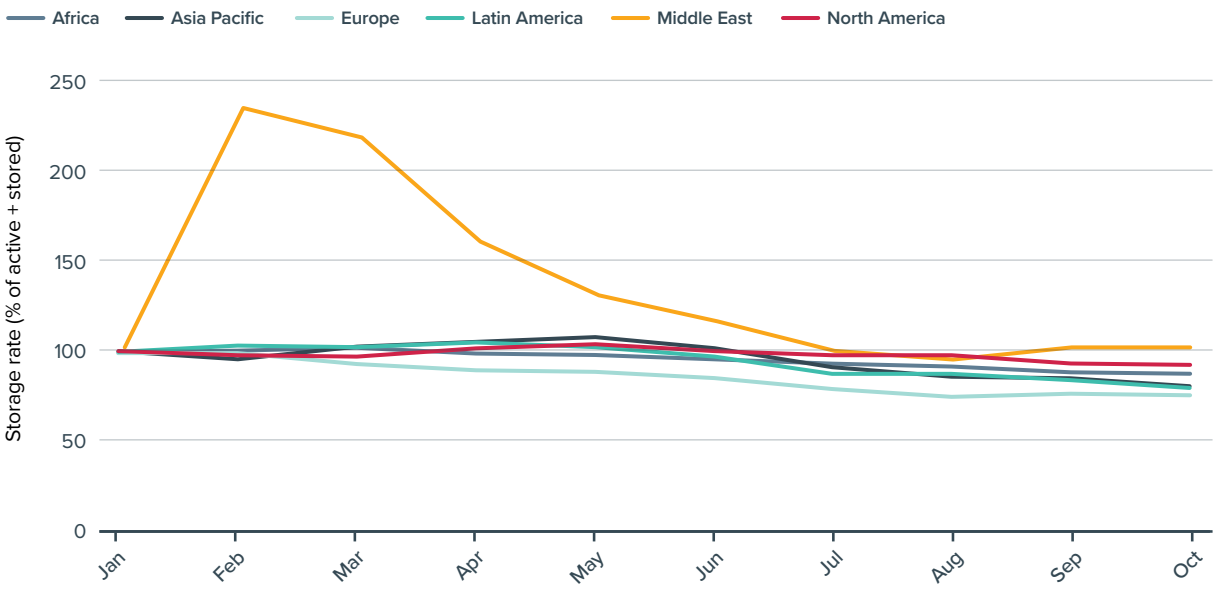
Figure 9. Evolution of Storage Rate



Source: Cirium Fleets Analyzer, SMBC Aviation Capital analysis

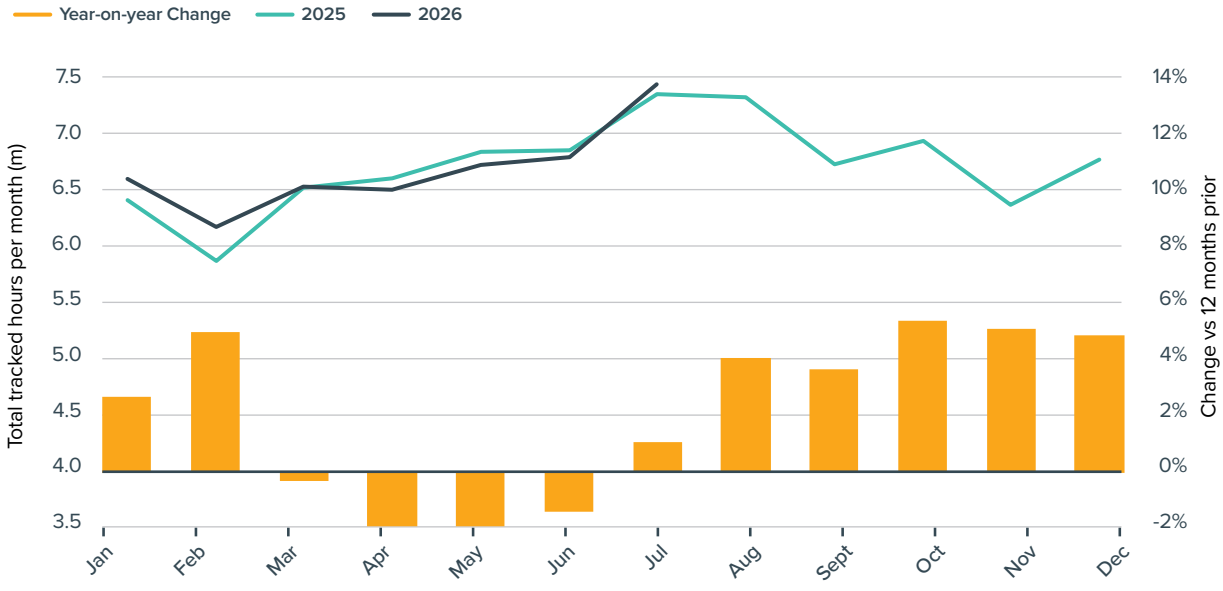
Storage and Utilization (continued)

Figure 10. Stored Aircraft by Region (Indexed)



Source: Cirium Fleets Analyzer, SMBC Aviation Capital analysis

Figure 11. Global Aircraft Utilization



Source: Cirium Fleets Analyzer, SMBC Aviation Capital analysis

Airline Consolidation

Airline consolidation is usually told as an American story: a decade of mergers that left four carriers controlling most of the US fleet. However, European fleet concentration has risen faster than America's since 2000. It has simply happened in a different way, and it has not travelled further east, yet at least.

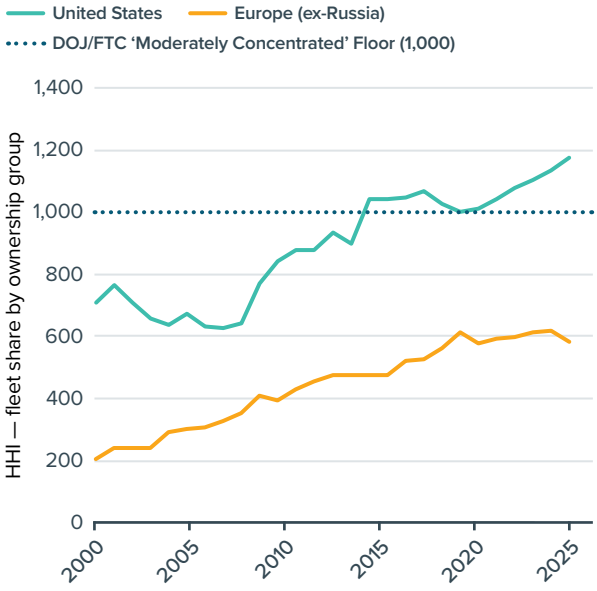
Europe's largest groups own many airlines but rarely merge them. Aer Lingus, Iberia and Vueling still fly on their own certificates inside IAG; Swiss, Austrian, Brussels and ITA do the same inside Lufthansa Group. Count those carriers individually and the market looks barely changed. Count them by owner, as ownership stood in each year, and the number of European groups with more than ten aircraft has fallen from 85 in 2000 to 57 today, excluding Russia and the CIS. The US fell from 47 to 29 over the same period.

Fleet concentration tells the same story. The Herfindahl-Hirschman Index (a standard economic tool that measures market concentration and competition levels) has risen from 204 to 589 in Europe and from 705 to 1,178 in the US. Europe remains the less concentrated market — the US crossed the 1,000 level that US competition agencies treat as the floor of moderate concentration in 2018 — but Europe's index has risen more than threefold while America's has doubled.

Some structural differences explain the holding-company model. Ownership and control rules require EU carriers to be majority EU-owned, and many traffic rights outside the EU are tied to a national carrier. Labour is organised nationally, which makes cross-border workforce integration slow and expensive. Several governments remain shareholders and want their flag carrier kept visible. Chapter 11 lets a US airline keep flying while it restructures, and Northwest, US Airways and American each merged around a bankruptcy. Europe has no equivalent: failure usually means liquidation, as at Air Berlin and Thomas Cook, and the aircraft return to their owners rather than passing to a stronger airline. Meanwhile, the US absorbed the low-cost carriers while in Europe they grew into groups of their own.

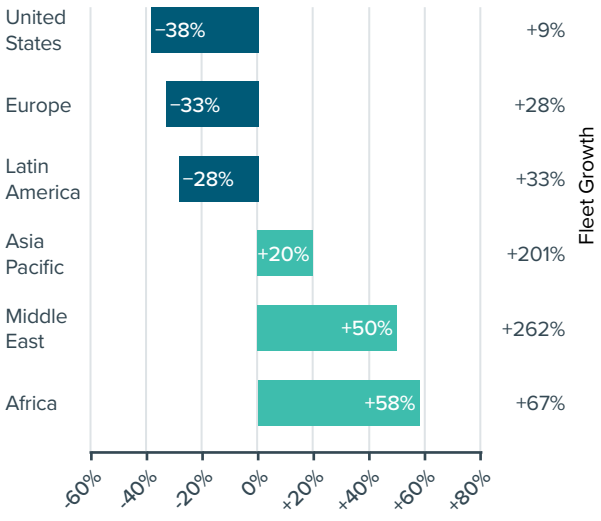
Beyond the North Atlantic the pattern reverses. Consolidation has happened where fleets grew slowly: the US by 9% since 2000, Europe by 28%, Latin America by a third. Where fleets grew fastest, the number of scale groups rose. Asia Pacific's in-service fleet has tripled and its count of groups with 100 or more aircraft has gone from three to 22, with IndiGo, VietJet and Spring Airlines among the newcomers. Asia's concentration index has also risen, but that reflects the scale of China's largest groups rather than mergers among independents.

Figure 12. Fleet concentration (HHI) by ownership group



Source: Cirium Fleets Analyzer; SMBC Aviation Capital analysis. In-service fleet; ownership as at each year; Europe excludes Russia and the CIS.

Figure 13. Change in number of operator groups vs fleet growth, 2000–2026



Source: Cirium Fleets Analyzer; SMBC Aviation Capital analysis. US and Europe on point-in-time ownership; other regions on Cirium's current group boundaries, which overstate early-year consolidation .

Airline Consolidation (continued)

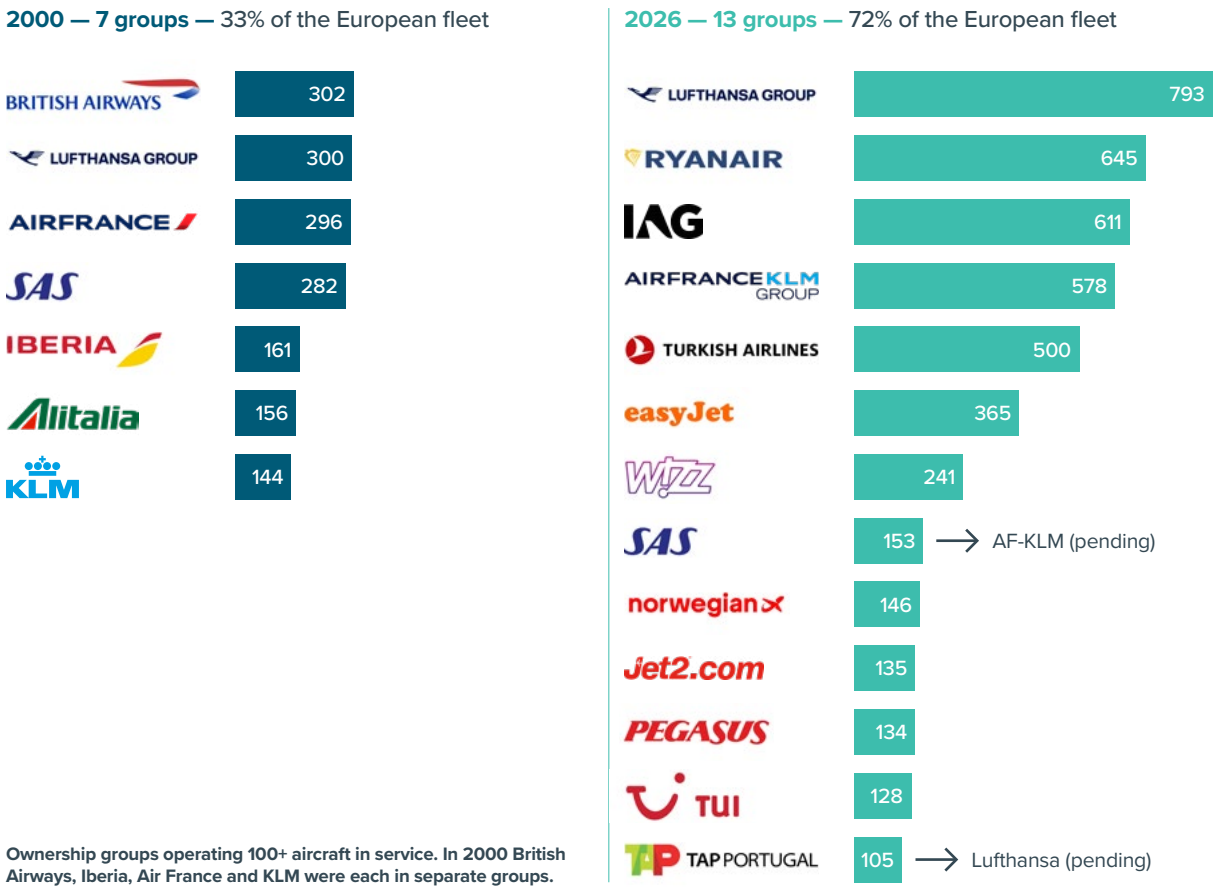
Europe's outcome is two-sided. The big groups dominate: Lufthansa Group, Ryanair, IAG, Air France-KLM and Turkish Airlines operate half the European fleet between them. Yet the 100-aircraft club has grown from six groups to thirteen, with easyJet, Wizz Air, Norwegian, Jet2 and Pegasus getting there through growth rather than acquisition.

That list is about to shorten. Air France-KLM has agreed to take 60.5% of SAS, subject to regulatory approval, and Portugal has chosen Lufthansa Group for a 44.9% stake in TAP. Both remaining independent flag carriers in the club are moving into the orbit of a major group.

For lessors, a European campaign now means fewer counterparties while placement terms are also shaped by the parent. Lessors should be clear about how much parental support to group subsidiaries is contractual as few parents guarantee their subsidiaries' leases. Carriers outside a group, meanwhile, are more exposed than before.

For the largest lessors, there is opportunity in that concentration. Groups plan their fleets across brands, and a lessor that can offer new-technology aircraft to one subsidiary, mid-life lift to another, sale-leasebacks and transitions between them becomes a fleet partner rather than a supplier of individual aircraft. In Europe the counterparty is increasingly the group, and coverage, pricing and exposure should be set accordingly.

Figure 14. European ownership groups operating 100 or more aircraft



Ownership groups operating 100+ aircraft in service. In 2000 British Airways, Iberia, Air France and KLM were each in separate groups.

Source: Cirium Fleets Analyzer; SMBC Aviation Capital analysis. In-service fleet, excluding Russia and the CIS. Lufthansa Group includes ITA Airways from 2026. SAS and TAP status per company and press reports, October 2026.

Connectivity

A key driver of long-term air travel growth is urbanisation. In 1950 the global city population was roughly half a billion, barely half the rural figure. By 2010 cities had overtaken both towns and rural areas, and the trajectory carries them toward some 4.5 billion people by 2050 — close to a ninefold rise over the century.

Rural population, by contrast, has plateaued near 1.5 billion. Almost all net global population growth is urban, and air travel demand is generated disproportionately by dense city areas. As urbanisation is driven by migration it creates a durable origin-destination link that generates recurring travel for years afterward as people engage in Visiting Friends & Relatives (VFR) travel.

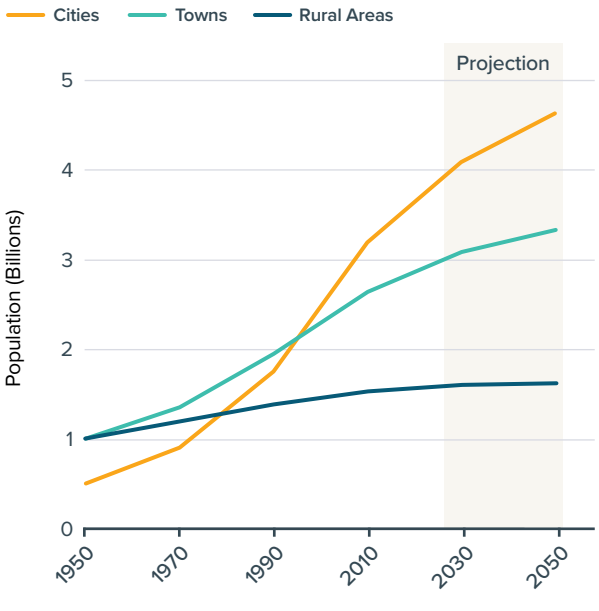
In the aviation industry we generally use Revenue Passenger Miles (RPM) as the chief method to measure the volume of demand. But this is only one dimension, RPMs can increase simply by flying the same routes with more passengers. City pairs are a complementary metric, and it is the one that links most directly with urbanisation. As the number of cities multiply, and existing cities increase in size, what matters is not only how many passenger-miles are flown but how many city links exist to fly them.

Looking across the time period from August 2025 until August 2026 we see expansion in city pairs, despite seasonality, an oil price shock and the war in Iran. Unique city pairs rose from around 25,400 to a high of around 26,000, up about 2.5% year-on-year. The path was not linear, connectivity contracted to a trough near 23,000 in February 2026 before rebuilding through the spring, but this is the typical winter contraction and summer expansion, not underlying weakness.

If we step into connectivity by region, we broadly see three different trends. Firstly, Europe drives the dip, moving from c.10,000 city pairs in August 2025 to 7,500 by February 2026 and back to a record 10,500 by the following August. Seasonality is very much a European phenomenon, so the overall dip is largely a European story.

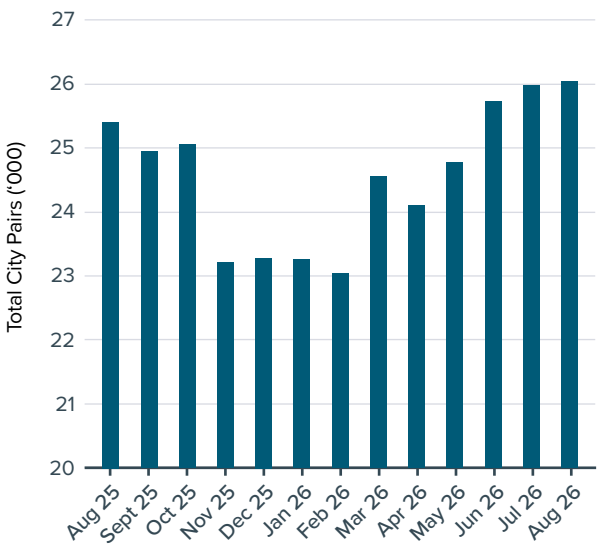
North America and Asia-Pacific were broadly flat, growing around 1% across the time horizon. The Middle East, however, fell 27% from March to April as the war forced much of the region's airspace to close. These are route losses driven by physical airspace closure, not economics, and connectivity has been ramping up monthly since the April trough although remains 3% down year-on-year.

Figure 15. Urbanisation



Source: United Nations

Figure 16. Total City Pairs



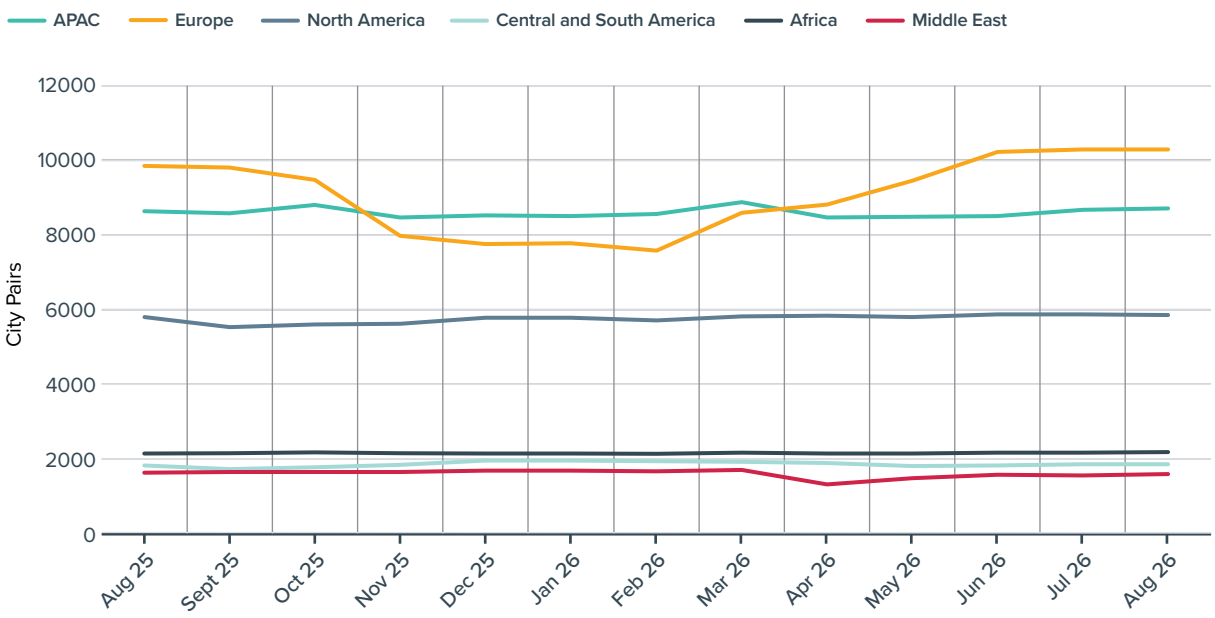
Source: SRS Analyzer

Connectivity (continued)

Notably, the war's fuel spike did not translate into wholesale route removal. Had it done so, aggregate city pairs would have fallen; instead they set a record.

In a previous edition we commented that airlines could pull back on incremental capacity and lower-yielding routes. Indeed, airlines adjusted to the fuel shock through capacity, trimming frequencies and downgauging rather than cutting markets. Structural growth and seasonality dominate the network, while even a significant geopolitical and fuel shock broadly stayed regionally contained and routed around. Global commercial aviation remains resilient to geopolitics.

Figure 17. City Pairs by Region



Source: SRS Analyzer

SMBC Aviation Capital Macro Monitor

Economic Growth	Q1 '24	Q2 '24	Q3 '24	Q4 '24	Q1 '25	Q2 '25	Q3 '25	Q4 '25	Q1 '26	Q2 '26	Q3 '26
US GDP											
China GDP											
Euro Area GDP											
Economic Expansion											
PMI – Manufacturing											
PMI – Services											
PMI – Exports											
Money Supply (M2)											
New House Starts (US)											
Global Supply Chain Pressure Index											
US Unemployment Rate											
Stocks											
S&P 500											
Nikkei 225											
Inflation											
US CPI											
China CPI											
Euro Area CPI											
Oil											
Brent Price											
Jet Fuel Price											
Crack Spread											
Commodities											
Aluminium											
Gold											
Titanium											
Interest rates											
5 Yr Treasury Rate											
10 Yr Treasury Rate											
5 Yr Swap Rate											
10 Yr Swap Rate											
Yield Curve (10Y-2Y)											
EFFR											
ECB Rate											
Volatility											
IG index (bps)											
VIX											
Currency											
DXY											
USDEUR X Rate											
JPYUSD X Rate											
Luxury/Premium Demand											
S&P Luxury Index											
Air Traffic											
Air Traffic (YoY)											
Air Cargo (YoY)											
Market Values											
SA Current Tech MV											
SA New Tech MV											
TA New Tech MV											
Market Lease Rates											
SA Current Tech MLR											
SA New Tech MLR											
TA New Tech MLR											

Sources: Bloomberg, Market Watch, Trading Economics, IATA, Cirium, IBA, mba, Avitas

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David is SVP Strategic and Market Analysis. He initially joined SMBC Aviation Capital in 2021 as a member of the Commercial Analysis team, with responsibility for assessment and evaluation of company transactions. In 2023 he joined the SMA team where he covers market and asset analysis along with broader industry research. Prior to joining SMBC Aviation Capital, David was a Valuation Consultant with Cirium Ascend. David holds a Bachelor's Degree in Aeronautical Engineering and a Master's in Business Management, both from the University of Limerick. He is also an ISTAT Certified Appraiser.

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