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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Aug 22 – Aug 26, 2016

Weird Weapons

This month, Chinese aid labeled as earthquake relief included a surprising military complement of 10,000 Avtomat Kalashnikov (AK-47) semi-automatic assault rifles, a global staple of military insurgents. Reporting by newspaper *El Universo* led to a hasty ceremony with Chinese ambassador Wang Yulin, during which defense minister Ricardo Patiño said that the shipment formed part of a 2014 military aid accord “it was possible to execute in the month of August,” including three patrol boats too, all free of charge. The ministry’s press release, dated August 15, preceding the newspapers’ first article by a day, also referred to a defense accord signed last June 17. Patiño’s subsequent refusal to provide additional information has raised suspicions about the true goals of the shipment.

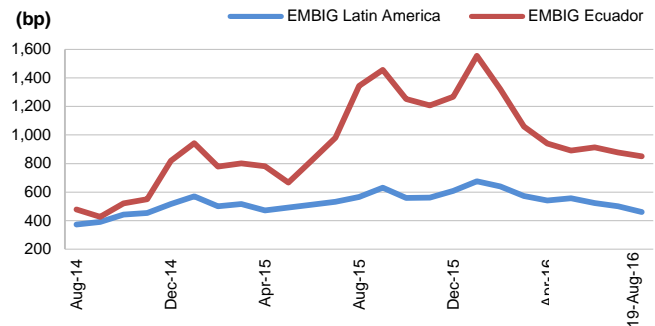
For one, Ecuador’s military doesn’t use AK-47, nor does it produce the same caliber munitions. It uses German Heckler und Koch rifles with 5.56-caliber bullets. Conveniently, the Chinese did supply the necessary 7.62-caliber ammo. Still, the available information has not been enough to dispel doubts. While of course subject to lobbying here like anywhere else and suffering from a risk of corruption that comes with the need for state secrecy, military procurement follows a strict procedure, for which there is no indication that it was followed in this case. In relation to the size of the army, the shipment was frighteningly great: Ecuador has less than 25,000 active-duty soldiers. Francisco Drouet, a retired general who as recently as last February directed the

Ecuador’s Global Bond Prices

Bond	Last Price							
	26/08/2016	Jul-16	Jun-16	May-16	Apr-16	Mar-16	Feb-16	Jan-16
Global 2020	102.27	100.49	99.38	100.28	95.21	90.54	79.08	74.92
Global 2022	111.79	100.03	N/A	N/A	N/A	N/A	N/A	N/A
Global 2024	88.70	87.49	87.64	89.44	88.04	82.88	72.81	69.63

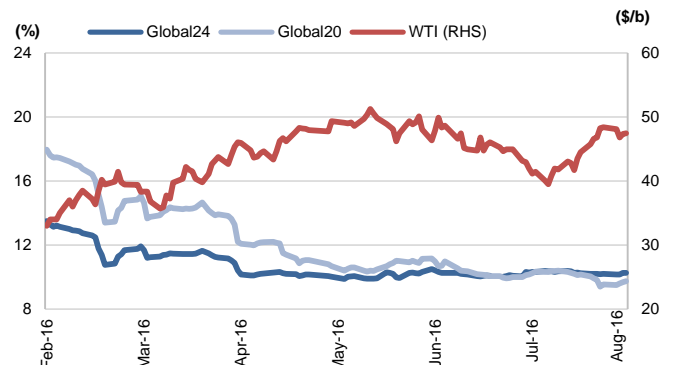
Source: Bloomberg and Analytica

EMBIG Spread



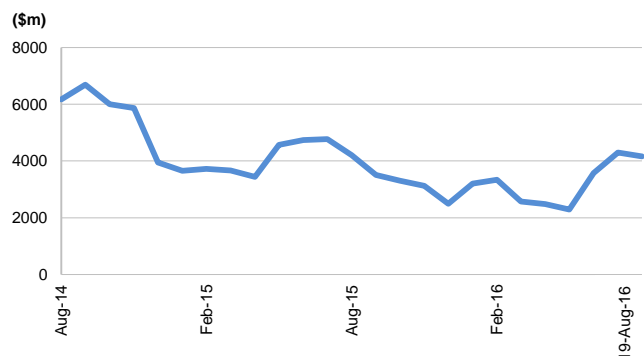
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2016



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

joint chiefs of staff's operations, said that the civilian-led ministry had indeed failed to inform the top brass of the Chinese military charity, dispelling notions that the weapons came as part of a regular program. Salvador Quishpe of the leftwing Pachakutik indigenous party and prefect of the Zamora-Chinchipe province has warned that the government may be planning to create correísta brigades modeled on those supporting the Maduro government in Venezuela.

Hopefully, the army will indeed take full charge of these weapons. We recommend their destruction lest they leak into the wrong hands, perhaps across the border in Colombia, where, following the Santos administration's final agreement with the Marxist FARC rebels, some guerrillas will likely splinter into dissenting groups. Meanwhile, while intensely loyal to president Rafael Correa's political cause, Patiño has left a track record of scandal that has severely tarnished not just his own reputation, but that of the ministries he has led, in particular finance and foreign relations, and thus the government as a whole. Correa should have fired him all the way back in 2007.

Breaking the Messenger

The Correa administration has lashed out time and again at journalists who have been brave enough to dig deep into the shadowy world of Ecuadorian corruption. Among these, television journalist Janeth Hinostroza of Teleamazonas and independent investigator Fernando Villavicencio stand out, not only for the quality of their reporting, but also for having stood their ground as the administration has attempted to break them. Villavicencio, in particular, and now quite literally, is paying the price.

Nearing the close of Correa's term - with the pendulum currently swinging, in Correa's own words, towards indeed stepping down next May - and perhaps emboldened by the post-coup scenario in Turkey, the government has moved against a series

of opponents by having online accounts of independent media suspended, using the media watchdog to attack them, and using the courts to attack particularly troublesome individuals. A journalist in Cuenca is facing a lawsuit from Caupolicán Ochoa, one of Correa's personal lawyers, for having posted a link to a report on alleged gold smuggling on his blog. All of this once again has served to reveal the ever diminishing independence of the judiciary; Correa even went as far as, thanks to the power invested in his position as chief bureaucrat, presiding over the marriage of Constitutional Court judge Tatiana Ordeñana at Carondelet Palace on August 8.

Villavicencio's most recent problems with the regime regard a long-running libel suit against him, former legislator Cléver Jiménez (whose immunity congress never bothered to suspend before a trial, as even a judge acknowledged) and medical activist Carlos Figueroa. Villavicencio and Jiménez escaped serving a one-year sentence by going into hiding, while Figueroa served time, during which he was not allowed to be at his mother's side when she died. Judge Edwin Cevallos on August 9 restarted enforcement for Correa to collect \$141,000 in damages from the libel suit, declaring Villavicencio bankrupt and ordering a seizure and post-haste auction of all of his property, proceeds of which are to go to the president. An appeal to the public to contribute has led to initial payments that have suspended the foreclosure, as well as sarcasm like deposits made in pennies, collected in a chamber pot. Nonetheless, the situation is earnest. The judge suspended Villavicencio's political rights, barring him from leaving the country and also from potentially standing for election in February, in which he was a potential candidate for the conservative Creo party led by entrepreneur Guillermo Lasso. And, despite the obvious illegality of the suit against Jiménez and the numerous contradictions in Villavicencio's case, the two once again face days in court against Correa.

The prosecution continues to allege that the two “hacked” the presidential e-mail account regarding private comments he made in the civil case of a group of Ecuadorians suing US oil giant Chevron, but the information actually made it into the public domain through US court documents.

In the case of Hinostroza, her show on Teleamazonas aired a series that investigated allegations of price-fixing in public tenders for medicine. Among the issues, she reported that the public procurements service (SERCOP) had carried out a tender that awarded close to a third of the total to a single company that has already obtained a negative reputation for poor quality of medicines delivered to the public health service. The reports also questioned the focus of the tender on price alone, while sources quoted there questioned the capacity of participating companies to actually provide quality medicines. To defend itself, SERCOP only provided a list of just 40 out of 405 medicines it said it had bought at a discount thanks to the process.

Both Hinostroza and Teleamazonas received an admonishment from the media regulator, led by Carlos Ochoa, a former television anchor close to Correa, for “media lynching,” a kind of “character assassination” included in the 2013 media law, ordering them to apologize. In emergency public broadcasts that all stations are required to carry, the government said of the reports that “it is not ethical to take on issues of public health without counting on scientific and technical substantiation and only to damage a process that seeks to guarantee the access to less expensive medicines for Ecuadorians.”

This may sound relatively modest considering what has happened to Villavicencio. Yet she has reported that, ahead of the decision, two video drones constantly filmed her family apartment, and that the Internal Revenue Service demanded she explain a deposit of \$60,000 into a bank account – money that she neither deposited nor ever received, she says. By blasting Hinostroza for tough questions to public

officials, “not letting them talk, taking a side, saying falsehoods ... she committed a media lynching,” Correa said on July 31, after which the investigation against her went into full swing. It took just six days for the media regulator, which is judge and prosecutor in these cases, to call a hearing. As one critic on Twitter put it, when informed of the allegations, rather than pursue the alleged perpetrators of the corrupt scheme, the government prefers to attack the messenger.

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