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ECUADOR WEEKLY REPORT[®]

KEY INDICATORS

For the week of Nov 14 – Nov 18, 2016

Painful Birth

From the very start, the campaign trail has proven difficult for the incumbent political movement, Alianza Pais (sic). A conflict between Lenin Moreno, the formerly wildly popular vice president (2007-2013) and current president Rafael Correa has marked it ever since Moreno returned from his gig at the United Nations in Geneva in late September. This week, the dispute even threatened to derail the candidacy of Moreno and his running mate, current vice president Jorge Glas, but, with the whole of Ecuador’s massive state apparatus behind it, it remains the ticket to beat. Postcorreísmo now looms, but while the choice of candidates remains reasonably free, the February 19 election will again by no means be fair.

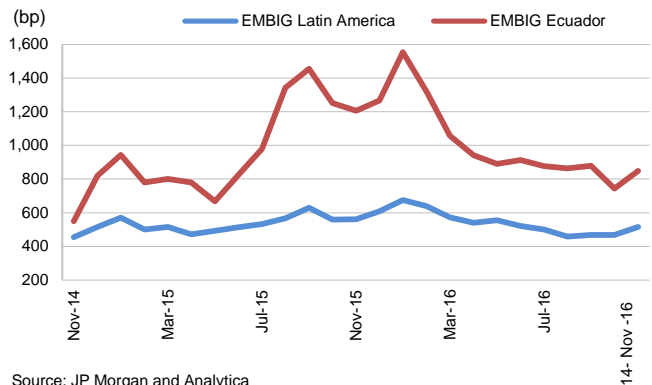
Candidacy registrations before the National Electoral Council (CNE) have become media events in their own right, rather than a bureaucratic stamp. Parties head to the CNE as if it were a pilgrimage site, with as many supporters as possible, in a show of strength. On November 16, AP however struggled as it mustered only a few hundred people for its demonstration, and its candidates held defensive speeches. Even Correa, facing the end of his 10-year uninterrupted rule, said “we’re not triumphalist,” albeit swiftly adding that “if the elections were tomorrow, the Moreno-Glas ticket would sweep the vote in the first round,” alluding to the runoff that will be held if a candidate doesn’t win outright (either by winning 50% plus one of valid votes or at least 40%, with a 10-point lead over the runner-up). Moreno, who has been confined to a wheelchair after being shot during a

Ecuador's Global Bond Prices

Bond	Last Price									
	10/11/2016	Oct-16	Sep-16	Aug-16	Jul-16	Jun-16	May-16	Apr-16	Mar-16	
Global 2020	104.45	106.13	102.51	102.30	100.49	99.38	100.28	95.21	90.54	
Global 2022	103.86	106.11	102.47	102.89	100.03	N/A	N/A	N/A	N/A	
Global 2024	90.96	94.55	90.25	88.05	87.49	87.64	89.44	88.04	82.88	

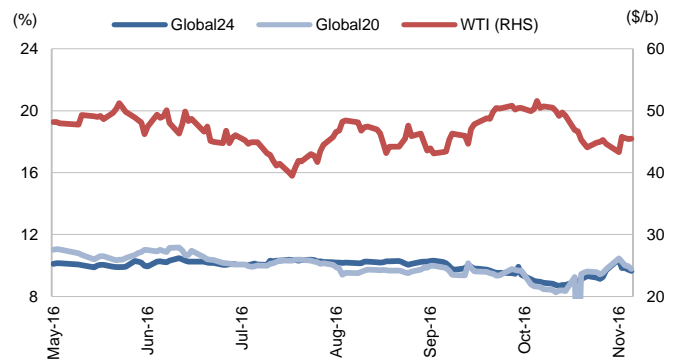
Source: Bloomberg and Analytica

EMBIG Spread



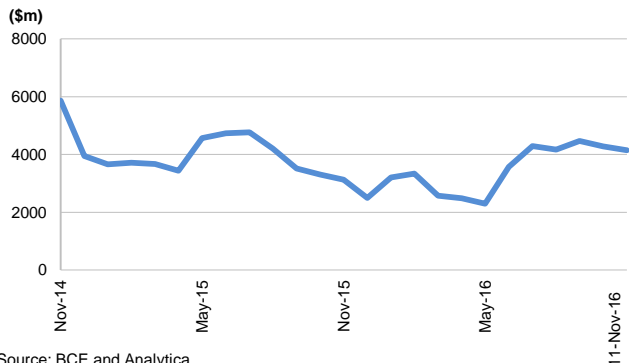
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2016



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

mugging in 1998, had to deny he lacks the physical strength necessary to hold the top office, although AP gave poor health as the reason for the delay in the registration of his candidacy originally scheduled for November 14. On his part, Glas, responsible for oversight of the “strategic areas” of the economy (oil, mining, electricity, and telecommunications) saw a need to defend himself after a string of corruption accusations, mostly at downstream state oil company Petroecuador. “My hands are clean,” Glas said. “I’m not the one who fled to Panama,” he added, indirectly referring to Abdalá Bucaram, the controversial populist president who fled there as his government collapsed after just six months in 1997 and whose son Dalo, a rival presidential candidate now, claims to have documents proving Glas’s corruption. But former Petroecuador officials have also fled there.

Meanwhile, several former cabinet ministers are now running for congress. While this will give Moreno a freer hand to pick his own government, it has the negative aftertaste of having some individuals look as if they were trying to find immunity from prosecution for acts committed under Correa by sitting in the legislature. The delay in registering the candidacy topped off what has been a disastrous start to the presidential campaign. The top near-term question regarding the future of Moreno, triggering plenty of speculation, is his real desire for power. With Correa out of the race, no other AP candidate can hope to win the race. Glas, is a drag on the ticket, political scientist Simón Pachano recently wrote in an opinion column in *El Universo*. Strains between Moreno and Correa have been evident since the beginning. Moreno long toyed with running for an opposition leftwing party. Most recently, he tried to dump Glas from the ticket after police arrested Marco Calvopiña, a former Petroecuador chief executive, while finding some \$800,000 dollars in cash stuffed in hiding places in his home. Correa says his government had nothing to do with the longtime Petroecuador career official, yet it appointed him after interim “emergency”

navy management in 2011 and had him run the company for four years. In the dispute over Glas, Correa had his way, and he still looks in charge, albeit suffering further damage to his credibility. But Moreno, too, looks like an unwilling figurehead as Glas, more than anyone, guarantees continuity of correísmo beyond the leader’s departure when his term expires next May. Under these conditions and considering the mystery of Moreno’s health, a scenario under which Moreno could quit shortly after being elected is not unreasonable.

Most Loyal Opposition

A few hours before AP showed up, the Social Christian Party (PSC) registered its candidates, Cynthia Viteri, a former PSC legislator from Guayaquil, and well-regarded Quito economist Mauricio Pozo, who served as finance minister under Lucio Gutiérrez (2003-2005). As a conservative, she could have been expected to concentrate on attacking AP candidate Moreno. Yet she focused on another, blasting self-made millionaire Guillermo Lasso (CREO), the runner-up to Correa in the 2013 elections, calling him the “unemployment candidate.” With at least four opposition candidates insisting on gambling that Moreno won’t win in the first round, after 10 years of correísmo, little appears to have changed in Ecuadorian politics, much to the country’s misfortune.

As the week winds down, seven candidates had registered to run for president: Moreno, Viteri, Lasso, center-left coalition candidate Moncayo, populist Dalo Bucaram, and a controversial former prosecutor general, Washington Pesántez. The latter two show up at the level of statistical errors, although Bucaram, as well as being the son of the infamous populist president Abdalá Bucaram (exiled in Panama since 1997 after his corruption and scandal-laden presidency lasted just a few months), also a former legislator and professional soccer player, has

managed to attract some notables to his campaign, including legislator Ramiro Aguilar.

AP's leftwing credentials have become increasingly dubious as the government has returned to the IMF and started selling foreign debt again. It has also pursued indigenous protestors and tightened anti-abortion legislation, among other issues. Meanwhile, other left-of-center organizations have shown a maturing – but also some questionable ethics. Indigenous party Pachakutik remains divided into hard-left, pro-Correa, and centrist factions. The revived Democratic Left (ID) meanwhile, with prodding from the socialists (also divided into anti- and pro-Correa factions) and unheard of pragmatism by the formerly Maoist Popular Union (UP), named former Quito mayor and retired general Paco Moncayo as its presidential candidate. Strong in the northern Andes, Moncayo stumbled badly by linking up with the populist Centro Democrático of Guayas prefect Jimmy Jairala, whose reputation has been tarnished by corruption allegation and who supported Correa's drive to impose an end to term limits. Moncayo has further alienated potential voters by repeating Correa's claim that government debt is actually low and refusing to say he'll scrap the media law called the region's harshest by press freedom advocates.

On the center and the conservative sides, somewhere between tragedy and foolhardiness, the irremediable rivalry between Guayaquil mayor Jaime Nebot PSC – Madera de Guerrero leader and Lasso. At a moment when the recovery of democracy is at stake, the center-right is split due to personal differences. Viteri, while a long political career of her own, still suffers from appearing in Nebot's shadow. Only Lasso, thanks to his independent political efforts as the leading opposition figure over the past term and his personal fortune looks like a candidate with no strings attached. But he, too, has made comments in recent weeks about abortion and gay rights that made him look like he might be willing to

question the universality of some human rights. For individuals who support democracy and individual freedoms, the slowness to react and resilience of irresponsible politics even after a decade of authoritarianism is disheartening.

More generally, voters feel as disenfranchised as ever; late October, respected polling company Cedatos reported 52% of them were undecided regarding whom to support in the elections. AP, too, has had little success in becoming rooted among the people. Other political organizations continue to fragment the electorate; banana tycoon Alvaro Noboa has dropped the idea of competing for the presidency but his new organization has nominated television starlets for congress, a type of candidates which AP has also tapped. Political scientist Simón Pachano has highlighted risk the self-inflicted, fragmented competition for legislative seats poses for the opposition. Because of the small size of electoral districts, the leading party gets a large advantage in the distribution of seats. Thus, even a diminished AP has a strong chance of again capturing a disproportionate number of seats. In other words, it's not just frivolity, Ecuador's opposition parties also suffer from stupidity.

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