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**ECUADOR WEEKLY REPORT<sup>®</sup>**

**KEY INDICATORS**

**For the week of Sep 18 – Sep 22, 2017**

**You're Being Filmed**

Following his retirement from office, Rafael Correa has mainly been active as a social network troll, blasting his former vice president and successor, Lenín Moreno, with online dispatches from his attic in Belgium for failing to stick to a game plan that would have made him no more than a puppet. Early this month, he brandished internal documents that he said had been provided by “loyal people” in the Carondelet presidential palace. But another source for inside information emerged when Moreno’s security detail noticed a warm spot in the wall of Moreno’s office that led them to uncover a hidden camera. The installation enabled Correa to spy on Moreno via his mobile phone, the president angrily revealed to his cabinet last week. The juicy Latin spy story notwithstanding, at this stage, the legal consequences look to provide the most interesting potential implications. Correa may pay dearly for his voyeuristic paranoia.

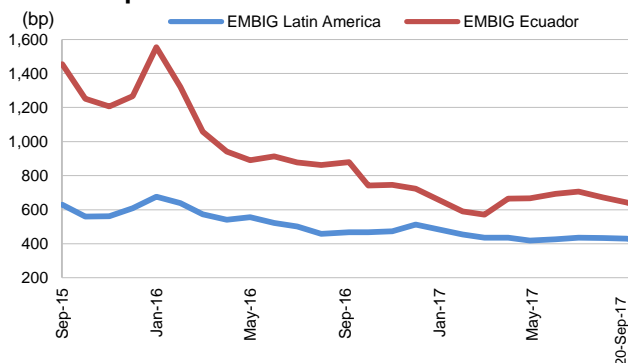
Moreno complained that during the transition before his inaugural, Correa and his security detail had withheld information regarding the camera, installed in 2009 or 2010, from him and his own team. Moreno said that it hadn’t previously been discovered since it had probably always been turned off during the regular security sweeps at 8 in the morning, likely maintained from his predecessor. While perhaps a sign of trust in his predecessor’s honesty, it also looks like a rather gullible or lazy handling of security. Moreno said that Correa had been extremely discourteous, trying to stick to a message that he believed he needed to set an example and refrain

**Ecuador's Global Bond Prices**

Bond	22-Sep	31-Aug	Jul	Last Price (end of the month)			
				Jun	May	Apr	Mar
Global 2020	107.99	107.39	106.12	105.83	105.58	107.50	106.65
Global 2022	110.77	110.05	108.20	106.83	107.41	108.63	106.66
Global 2023	102.54	102.34	100.12	98.55	-	-	-
Global 2024	97.93	98.22	95.60	93.52	95.05	95.58	94.57
Global 2026	104.70	105.25	102.56	100.71	101.11	102.29	103.92
Global 2027	104.22	105.01	102.19	100.30	-	-	-

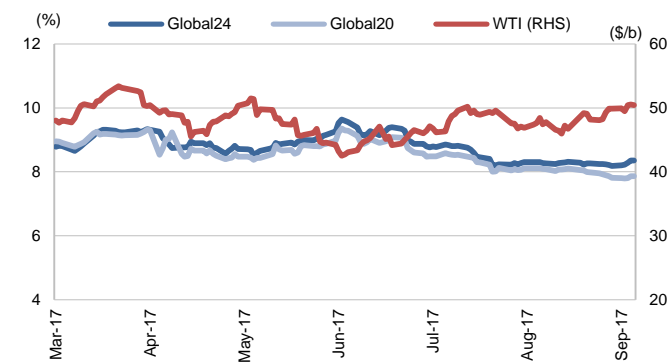
Source: Bloomberg and Analytica

**EMBIG Spread**



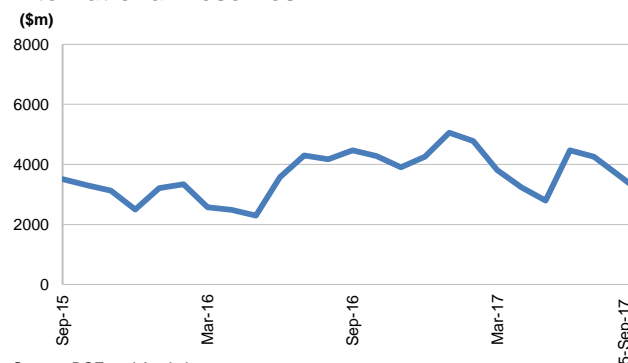
Source: JP Morgan and Analytica

**Bond Yields vs. WTI in 2017**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

from the epithets and other outbursts that characterized his predecessor's way of dealing with people. On Twitter, Moreno however said that he was irate and that Correa had committed a crime by "violating his intimacy."

This marks the first time that the former president himself faces being directly implicated in a crime, even amid the gigantic evidence of corruption and fiscal irresponsibility that brave individuals reported under Correa and that Moreno has confirmed in his first few months in office. Moreno said that an international team of specialists would be hired to help clear up the matter; the prosecution too has said that it could request foreign assistance. Correa unsurprisingly scoffed at the accusation, calling it embarrassing. Initial information from the prosecution has compounded the mystery as it said that the camera received electricity, but had no connection to a recording system as far as it could tell; it pulled down a long length of cable all the way to the attic of the palace as further evidence, along with data transmission technology. Some cables strangely appeared cut, when that happened remains unknown. Photographs of the evidence remain unavailable. It is surprising, however, that the prosecutor provided information about the investigation at this early stage.

How the prosecution handles the case will provide another test of loyalty after the prosecutor general Carlos Baca, a former legal aide of Correa, charged vice president Jorge Glas with a comparatively lesser charge of criminal conspiracy - basically saying that he failed to prevent the corruption acknowledged by Brazilian infrastructure company Odebrecht - rather than accepting bribes or embezzlement. Whether Moreno trusts Baca will become more evident on October 2, when he presents the questions of his referendum to the general public. The severe charge of espionage meanwhile may emerge to haunt Correa as the investigation continues. The scandal has also served to remind Ecuadorians how the Correa administration spied on its own citizens, even

including officials. Newspaper *Expreso* and web portal *4Pelagatos* have quoted internal documents from the SENAIN intelligence service. Correa established the SENAIN after Colombia's raid in March 2008, during which it killed a senior rebel commander on Ecuadorian soil, but its activities appear to have focused solely on local citizens. Rommy Vallejo, whom Moreno kept on as the agency's director, blamed the presidential security service for the camera. Regardless of who is ultimately responsible, the prosecution has dragged its feet investigating the hacking of e-mails of Correa critics like Martha Roldós, prominently displayed by the former president himself as well as by government-controlled media. Other victims include journalists, environmentalists, and indigenous leaders. In yet another test of Baca's independence, Vallejo and Correa need to be held to account for both illegal hacking of Roldós and others as well as for the agency's profligate spending.

### **Spot On**

After a two-and-a-half year absence, Petroecuador returned to the spot oil market in triumph, selling 2.16m barrels of Oriente-grade crude oil to Glencore, the highest bidder, at 51 cents above West-Texas Intermediate, the benchmark for Ecuador's oil. While most of the bids remained below the benchmark, the price the Oriente crude for September delivery fetched proved that Ecuador's oil need not necessarily be condemned to an eternal discount on spot markets. This early reward to changes in international oil sale policy may well lead to further changes in strategy at the company. Basking in their success, new executives at the company said that the next spot sale of an as yet undetermined amount will go ahead in the first quarter of 2018.

Since the end of August, crude prices have rallied a significant 11% to close to \$50 from \$45, amid mixed news (hurricane Harvey shut down refining capacity, leading to higher oil stocks, but also

reduced output in the Gulf of Mexico). The sale result gave the state oil companies and oil ministry a helpful indicator in upcoming contract renegotiations, according to oil minister Carlos Pérez, himself a career private-sector oilman. Ahead of the sale, analysts spoke of an expected price around \$43, thanks to the discount regularly assumed for Ecuadorian crude grades. In the aftermath of the sale, oil companies handed in 34 bids totaling a potential \$1b combined investment in 15 small oilfields holding around 140m barrels in proven, potential, and possible reserves scattered throughout the core Amazonian oil-producing area.

According to information Pérez has provided in recent weeks, Ecuador is about halfway through repaying the 1.1b barrels it committed to deliver largely to Chinese oil companies, as well as Thailand's PTT, through 2024. Newspaper *El Comercio* reports that the schedule accommodates an availability of 68% of crude exports for potential market placement in the next seven years. The success of the spot sale has of course led to calls for these to continue. On the sidelines of the bidding for the oilfields, Pérez said the government aims to pursue a strategy of both short and long-term oil sales. The success of the sale should tempt the government to sell all of its oil in the open market to repay the oil-backed loans from China and Thailand as soon as possible, recommended Fernando Villavicencio, an investigative journalist whose success in uncovering corruption in the oil industry, particularly in oil sales, earned him the hatred of president Correa and an arrest warrant for allegedly publishing government secrets. Villavicencio briefly returned to the spotlight in Quito last Monday when he presented a 105-page dossier since handed to prosecutors to document what he alleged was proof of corruption in the oil industry (he went back into hiding to avoid his arrest, while his wife and children face harassment by police outside their apartment;

dozens protested against Villavicencio's potential arrest in front of his building in Quito Monday night).

Villavicencio argues that the discount applied to Ecuador's crude in the repayment of the loans were too negative and thus handed oil traders unjustifiably handsome profits, with the connivance of Correa and other officials including vice president Glas. He speculated that the losses could have easily totaled \$2.2b since 2010. Asked by reporters, Pérez said that the figure needed a more precise review. Nonetheless, the move towards a more transparent, market-oriented export regime by Petroecuador is clear. The question of how exactly to develop this strategy in Ecuador remains somewhat clouded by the belief that commodity traders are somehow evil profit-skimmers, rather than providing a service. Transparency and competition should reduce traders' profits of course, which is the opposite of what happened under Correa. And as a commodity in one of the world's deepest markets, crude oil doesn't need long-term contracts to ensure it finds a buyer, even considering that not all refineries can refine all types of crude. The success of the spot sale also boosts the recommendation we made of considering a shuttering of the decrepit Esmeraldas refinery; that would free up a significant additional amount of oil for the spot market.

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