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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Oct 2 – Oct 6, 2017

The Burial Project

After teasing them for several weeks, president Lenin Moreno this week finally presented seven questions for a referendum that served up some surprises. Momentum appears behind him as the opposition, including key leaders like Guayaquil mayor Jaime Nebot (PSC) and Moreno's rival in the presidential elections, Guillermo Lasso (CREO) said they would vote "yes" in all cases. The questions all bear reference to current political issues, but also appear calculated to appeal to popular instincts to drum up support lest economic realities undermine the president's current sky-high approval ratings around 80% once the referendum takes place. It could take until late January or February, Moreno told reporters this week.

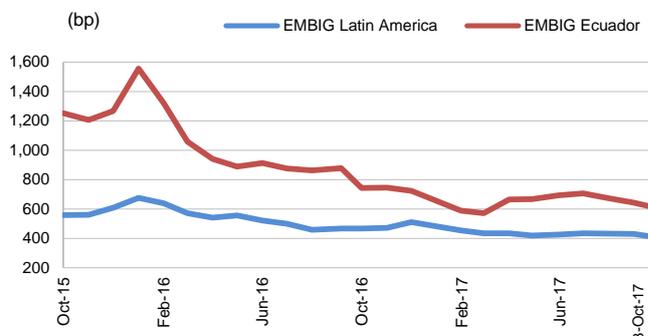
The most crucial of the seven questions, unofficially translated below, is the second, asking people to reintroduce the two-term limit for elected officials. In his meeting with the press, Moreno said that the personality cult and authoritarianism of his predecessor, Rafael Correa, betrayed the early years of the "Citizens' Revolution," enshrined in the Montecristi Constitution of 2008. We strongly disagree with this interpretation of what happened in those years, during which Moreno was vice president. Whatever Moreno really believes, by leveraging the alleged good times against what he called the "dark age" of the end of Correa's final years, he is attempting to harness the support of the left that abandoned Correa around 2010/2011 and continuing to fight for his predecessor's sizeable remaining

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)						
	6-Oct	Sep	Aug	Jul	Jun	May	Apr
Global 2020	108.34	108.03	107.39	106.12	105.83	105.58	107.50
Global 2022	112.96	111.77	110.05	108.20	106.83	107.41	108.63
Global 2023	104.32	103.39	102.34	100.12	98.55	-	-
Global 2024	100.49	99.14	98.22	95.60	93.52	95.05	95.58
Global 2026	106.65	105.60	105.25	102.56	100.71	101.11	102.29
Global 2027	106.26	105.01	105.01	102.19	100.30	-	-

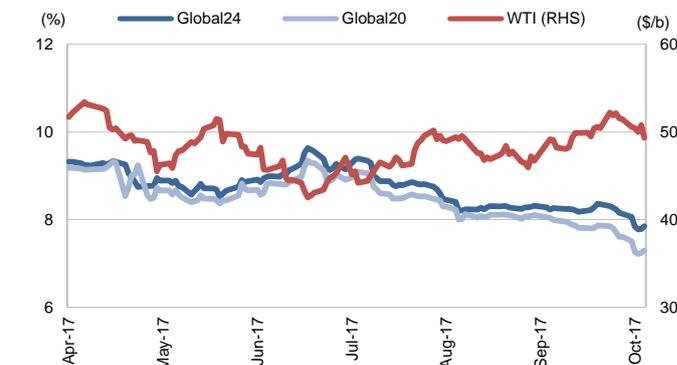
Source: Bloomberg and Analytica

EMBIG Spread



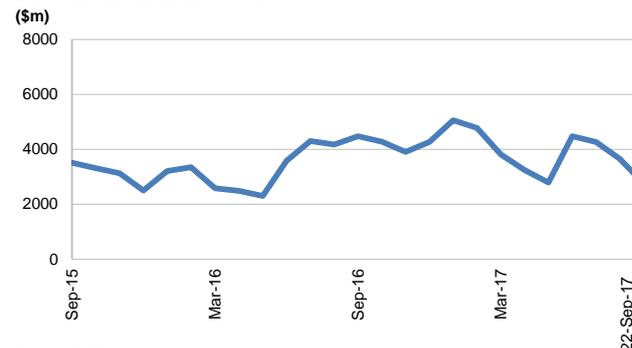
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

group core supporters. The two-term limit existed in the charter until Correa had it changed in late 2015. The center-right will support this wholeheartedly, as will much of the left. To reintroduce it will bar Correa from being able to run in 2021. This could finally trigger the rupture of Alianza País (sic), the political movement that both Moreno and Correa represent and which, while controlling congress with a slight majority, has been stuck idling on the sidelines as the past and present presidents struggle to control as much of it as possible.

Another key issue is the replacement of top judicial and regulatory officials appointed by the "Citizens' Participation and Social Control Council" (CPCCS), a body inspired by Venezuela that was allegedly going to depoliticize control of the courts and regulatory bodies. As critics had warned earlier, the opposite happened, and it was stuffed by AP cronies that on their part ensured correísta control of other bodies like the judiciary and electoral council. How to dismantle this without provoking opposition from the Constitutional Court (CC), also a court to date loyal to Correa, was subject to much speculation in recent weeks. Under the constitution, the CC revises referendum proposals (split in Ecuador in referendums and "citizens' consultations," the former being defined as such that introduce detailed legal reforms that impose a 20-day response deadline for the court). The wording put forward by Moreno keeps the CPCCS intact, perhaps sidestepping the risk of a veto by the CC if he would have asked for its removal. To provide legitimacy, he says the body should be elected in the future. In the interim however, the current CPCCS members are to be fired and a temporary body to be hand-picked by Moreno.

For all the president's insistence on non-intervention in the judiciary, individuals like prosecutor general Carlos Baca and attorney general Diego García are certainly on notice given the Damocles' Sword the referendum puts on their future performance, particularly regarding the giant

corruption scandals working their way through the courts. But the discretionality of picking a temporary CPCCS has alarmed many. Confronted with the matter, Moreno told the press the people needed to trust the president to pick "the best" for these extremely important and sensitive positions. Yet hours later, he chose a completely unacceptable woman as a temporary vice president (see below).

The remaining questions, while relevant, look motivated above all to galvanize voters. Two concern limits on mining and oil production, hoping to capitalize on the 800,000 signatures environmentalists obtained against expanding the oil frontier in the eastern Yasuní National Park. The other ends statutes of limitation on sex offences against minors; the Correa administration had a shocking track record of supporting these kinds of offenders, one of the darkest sides of that government. The appeal of the referendum questions overall have pleased investors as Moreno's ability to govern the country amid the mess inherited from Correa has strengthened and correísmo looks set to be buried. But the issue of the judiciary looks set to continue on its decades-long trail of tears.

The referendum questions:

1. Do you agree that the Constitution be amended to punish anyone convicted of acts of corruption by terminating their ability to participate in the political life of the country and with the loss of their property?
2. To guarantee alternation in power, do you agree to amend the Constitution so that elected officials can be re-elected once only...., leaving indefinite re-election ineffective?
3. Do you agree to amend the Constitution to restructure the Participation Council, as well as to terminate the term of its current members, and that the Council that temporarily assumes has the power

to evaluate the performance of the authorities ..., being able to terminate their periods early?

4. Do you agree with the repealing of the Organic Law to Prevent Speculation on Land Value and Taxation, known as the "Capital Gains Act"?

5. Do you agree to amend the Constitution of the Republic of Ecuador so that sexual offenses against children and adolescents never prescribe?

6. Do you agree to increase the intangible area to at least 50,000 hectares and reduce the area of oil exploitation authorized by the National Assembly in the Yasuní National Park from 1,030 hectares to 300 hectares?

7. Do you agree to amend the Constitution to prohibit, without exception and during all stages, metallic mining in protected areas, intangible zones and urban centers?

Presidential Vice

The same night that president Moreno announced the questions for his referendum, vice president Jorge Glas and his uncle and close associate Ricardo Rivera were placed under arrest, the former at the VIP prison in Quito, the latter in Guayaquil. While they may both be released on bail shortly after the close of this edition, Moreno said that Ecuador couldn't have a vice president incapacitated by being behind bars. Invoking the constitutional articles regarding an unavailable vice president, he picked housing minister María Alejandra Vicuña. She is an appalling choice, made all the more alarming considering he had invoked the citizens' trust just hours earlier when discussing the naming of officials by a temporary CPCCS (see above).

For all the turmoil that Ecuador has experienced since the first declaration of independence in 1809, to have an acting vice president in jail is of course

unprecedented. Bizarrely, he has his own security detail protecting him there. While it is positive that the pressure emanating from the international corruption scandal centered around Brazilian construction firm Odebrecht finally forced the judiciary here to act, Glas's refusal to resign and accept political responsibility in the face of ridiculous defense, lately even invoking God as his protector, demonstrates the equally unprecedented lows to which correísta officials have stooped (He said that "my battles don't tire me because God fights them for me"). Sadly, these antics have only served to further undermine Ecuador's institutions and international reputation.

Meanwhile, Vicuña perhaps fulfilled a quota objective by being from Guayaquil, hub of Ecuador's coastal lowlands, and by being a woman. Perhaps Moreno also wanted a person as blatantly willing to go back on earlier positions; Vicuña as a legislator vehemently defended Correa's elimination of term limits two years ago, but now will be in charge of pushing forward the referendum. In Ecuador, presidents task vice presidents with specific political jobs; he gave Vicuña the one to push forward the referendum, while laying off dozens of the more than 200 staffers at Glas's vice presidency. Vicuña may be willing to face off with the hardline correístas given her completely unscrupulous and opportunistic background. Among her most infamous moments, she made public private audio recordings of Martha Roldós, who currently runs investigative news site *Milhojas*. In them, Roldós, a longtime tough critic of president Correa, said she hoped the "son of a bitch" would fall; for some reason or other, Vicuña inferred that this referred to the president at the time, though he was never named. Vicuña defended the publication of the illegal recordings arguing a "right to know" similar to that of the political spying undertaken by Correa's intelligence agency, SENAIN. She also demanded Roldós be tried for treason, which never happened.

Moreno of course must have known about this incident when he picked Vicuña as housing minister, and when he elevated her further. To keep problematic officials in his cabinet like Vicuña or María Fernanda Espinosa, the foreign minister who once again blasted bilateral trade investment treaties in recent days (undermining Moreno's goal of having these reinstated) speaks poorly of the president's interest or ability to truly boost the ethics of the public administration. This, in turn, has already dimmed the enthusiasm for his referendum among Correa opponents.

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