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**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Feb 5 – Feb 9, 2018**

**Beginning or End**

As expected, voters by a wide margin of between 60% to 70% approved the seven referendum questions made by president Lenín Moreno. Politically, the most important issues were the reinstatement of term limits, which bars former president Rafael Correa from running for the top office again; the reorganization of the "Citizens' Participation and Social Control Council" (CPPCS), a currently unelected panel that picks top judicial and regulatory officials; and the barring of individuals found guilty of corruption from ever holding public office. While finally removing Correa from the immediate political scene almost nine months after Moreno succeeded him, the vote left behind more than one bitter aftertaste.

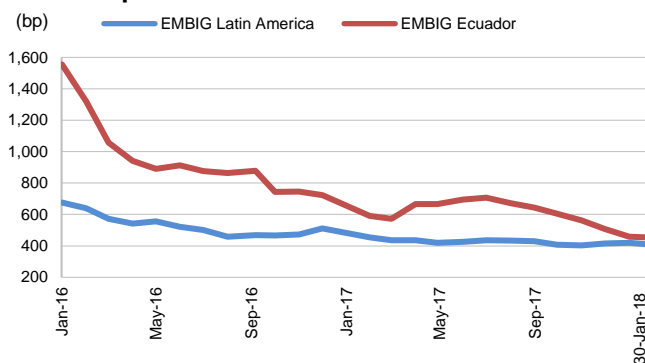
In some significant ways, Ecuador has changed since Correa's departure from office. The press is largely unmuzzled. The president refuses to get involved in legal proceedings, except for publicly reassuring prosecutors and judges that they are free to act. Rather than confronting the US and other important foreign partners, he has sought to improve relations, and criticized authoritarian foreign leaders like Nicolás Maduro. In a meeting with foreign correspondents this week, he told a Cuban reporter that the time was over for old-time socialists who felt entitled to hold on to power eternally, like Fidel Castro. The reinstatement of term limits also means shakeups at the local level as longtime mayors of major cities won't be able to run for re-election next year when their terms are up. Popular longtime mayor

**Ecuador's Global Bond Prices**

Bond	2018		Last Price (end of the month)				
	9-Feb	Jan	Dec	Nov	Oct	Sep	Aug
Global 2020	107.08	109.98	110.94	109.64	109.10	108.03	107.39
Global 2022	112.27	116.32	117.48	115.86	113.13	111.77	110.05
Global 2023	105.34	110.12	110.67	108.46	104.90	103.39	102.34
Global 2024	101.34	106.04	106.60	104.42	100.89	99.14	98.22
Global 2026	109.59	114.40	115.03	112.45	108.04	105.60	105.25
Global Jun 2027	108.95	113.76	114.73	111.66	107.57	105.04	105.01
Global Oct 2027	103.93	109.17	109.90	106.82	102.40	-	-
Global 2028	97.12	102.04	-	-	-	-	-

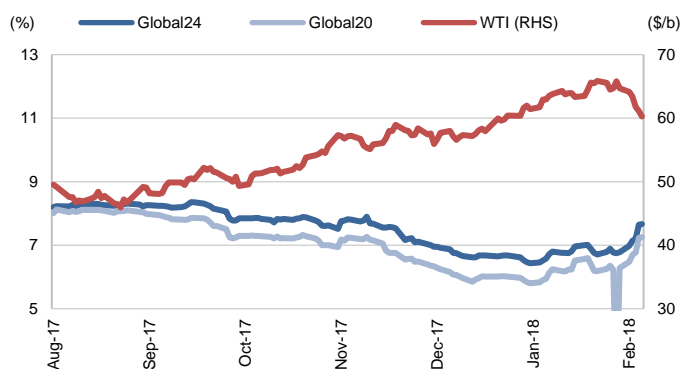
Source: Bloomberg and Analytica

**EMBIG Spread**



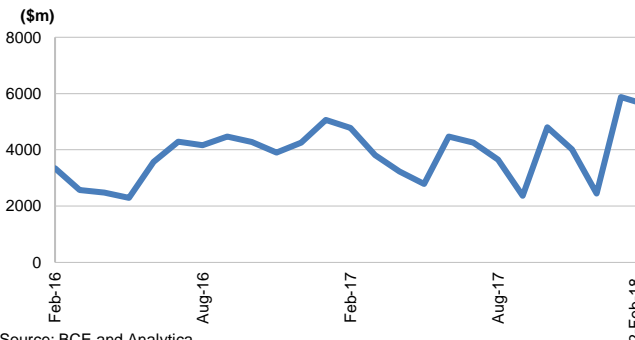
Source: JP Morgan and Analytica

**Bond Yields vs. WTI in 2018**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

Jaime Nebot of Guayaquil campaigned in favor of the limit. In Loja, controversial mayor Bolívar Castillo was caught on video saying that his public favoring of the referendum was only due to opportunism, and that, privately, he was against it. The opening of Ecuador has also included an overture to foreign investors. Foreign trade minister Pablo Campana became the first top-level government official to attend a World Economic Forum meeting in Davos in more than a decade.

Correa meanwhile has left the country after trying to rally his remaining supporters. In a limited fashion, he succeeded, despite the embarrassment of having been egged by crowds in several public appearances. A relevant share of the third of voters who refused to vote "yes" to Moreno's questions (even though one was the removal of the statute of limitations on sex crimes against minors) indeed likely continue to support him. Amid a still broken political landscape, he could certainly again become relevant, for example if he were to run for mayor of Guayaquil, Ecuador's Pacific Coast hub. Whether Correa can ever make a comeback will hinge on his ability to stay out of jail as evidence of the staggering scale of corruption continues to emerge. The comptroller general's office has finally started to investigate Vinicio and Fernando Alvarado, the Correa regime's propagandists, after the anti-laundersing Financial Analysis Unit delivered a report showing staggering "unusual and unjustified" income under Moreno's predecessor: \$155.7m, distributed among a series of public relations and advertising firms they own (Vinicio Alvarado via Twitter denied any wrongdoing). Media web sites like *Milhojas* ([milhojas.is](http://milhojas.is)) and Twitter accounts temporarily went offline after reporting the news. The comptroller has also found evidence of corruption in Correa's regular Saturday propaganda shows, already passing its evidence to the prosecution.

Other bad news for the former president included congressional greenlighting of the impeachment trial

of Carlos Ochoa, Ecuador's media regulator, or de-facto censor. But plenty of evidence of a "deep correísmo" in the country remains. Privately, electoral officials bemoaned the need to rely on an electoral roll based on information from the civil registry. Anecdotally, numerous foreigners who qualified to vote were eliminated from the roll which at the same time grew to 13.03m, close to 80% of the country's 16.7m residents. High-profile critics of the Correa administration like investigative journalist Fernando Villavicencio were also unable to vote because they failed to appear on the roll. The public prosecutor's office asked Correa to testify after starting to investigate possible embezzlement in oil-backed loans to China long denounced by Villavicencio. Conveniently however, Correa's testimony was diverted to Guayaquil rather than Quito, to where Villavicencio couldn't travel because he is forced to wear an electronic ankle bracelet. According to witnesses at the court, Correa's lawyer and the former presidential legal secretary, Alexis Mera, decided who could enter and who couldn't. Villavicencio's lawyer was barred entry, but a prosecutor reportedly asked Correa the questions he had prepared. The situation highlights the ongoing struggle for independence of the judiciary.

In Quito, the photo of the cabinet on the presidential balcony the morning after the referendum showed a large number of faces of prominent former correístas. At the same time, a criminal case against pollster Cedatos continued this week solely because its April 2, 2017 exit poll had reported that a majority of those it had interviewed said they had voted for Moreno's rival, conservative former banker Guillermo Lasso. The woman who had demanded that trial was Rosana Alvarado, at the time a correísta legislator and now the morenista justice minister. After the referendum, she said that the government would replace the windfall real estate gains law that the citizens had just overwhelmingly voted to repeal. Details are still unavailable, but it seems incredibly

disrespectful that Alvarado suggested reinstating in some other way a law that led tens of thousands to protest in 2015 might simply be replaced, rather than repealed, as the wording of the referendum indicated. Just as disturbingly, Moreno told foreign correspondents that he agreed with Alvarado and that he would never seek to more formally cooperate with conservative political opponents. While not as harsh as his predecessor, he did question their ethics, underscoring that he, as the head of a socialist government, had strictly different values that made it impossible to cooperate with conservatives except for eventual coincidences. Moreno seemed completely oblivious of the level of support he got from conservative sympathizers in the referendum to be able to win.

Ironically, had it not been for the Inter-American Human Rights Commission, his poor post-referendum performance would have cost Moreno a lot more domestic support this week than it did. Three members of the CPCCS, all of them *correísta* hardliners, had asked the commission to protect them against the referendum because of the question that allowed voters to fire them. They likened the reshaping of the CPCCS to a coup. The commission agreed and asked the Inter-American Court of Human Rights for a formal injunction against Ecuador. This scandalized public opinion, including top lawyers who offered the president their support in defending the country, and rallied support behind Moreno once again. Moreno however preferred to send foreign minister Maria Fernanda Espinosa, Alvarado, minister of politics Miguel Carvajal, and the president of congress, José Serrano to testify in favor of the government at its headquarters in San José, Costa Rica, rather than the experts who had wanted to help. Refreshingly, the court swiftly voted 4:2 against the commission's request (the dissenting judges, from Argentina and Brazil, are close to Correa's allies Cristina Kirchner and Ignacio Lula da Silva). Given the extent of the ruling, issued as the government

team arrived, their appearance can hardly have mattered. In its decision, the court sternly admonished the commission for having been completely inconsistent in its choice of matters for which it sought urgent injunctions. This will hopefully reduce politicking at the commission, which this week severely tarnished its reputation, even though it occasionally helped protect politically persecuted Ecuadorians during Correa's time in office. The commission scandal gave Moreno a brief moment to once again get tacit support across the political spectrum. He would be wise to learn the lesson, but, sadly, we're unconvinced that he will.

### **Mocking Manabí**

During the week before the referendum, the Moreno administration held a widely touted two-day investor conference to showcase the stalled Manta refinery project. Media reports say that just three companies of the 70 who participated still remain interested. For Manta and Ecuador's oil industry, that might well be the most positive end result. The government should bury the project too as it was unable to get political traction in Manabí from the promise to build the refinery, an empty lot even after the Correa administration poured more than \$1.5b into the project: Manabí was the only province where voters didn't fully support the referendum questions.

The plant was one of the many Venezuela's Hugo Chávez promised his allies he would build. Like all of them, it failed to materialize. In the case of Ecuador, Chávez imposed South Korean engineering firm SK as the designer of basic engineering. Brazilian construction firm Odebrecht meanwhile paid bribes to get the contract to level the ground and provide an aqueduct, according to the legal investigation into its involvement in corruption in Ecuador. According to oil minister Carlos Pérez, the plan is now to build a refinery that would cost around \$5b, about a third of the cost of the original plan. This could be achieved with modular construction fine-tuned to the location at

El Aromo, a hamlet close to beach resorts and a protected area home to howler monkeys and other rare wildlife. It would need another \$3b in infrastructure, including at least a pipeline link that would cost \$1b. The oil ministry has set a self-acknowledged aggressive pipeline to sign a deal: May 24, the first anniversary of Moreno's time in office. It looks very unlikely that a deal can be reached by then. This should be celebrated. While Ecuador will hardly be able to recover the 49% of the money that Venezuela was supposed to contribute to the project, a joint venture between state-owned Petroecuador and Petróleos de Venezuela (PdVSA), the government should focus its efforts on improving existing facilities or winding them down too, to the benefit of the high-margin oil export business. According to Pérez, if PdVSA wants to continue as the junior partner, it needs to pay up or exit the JV.

If Ecuador insists that it wants to continue as a refiner, saddled by the politically motivated deeply onerous subsidies of diesel and low-octane gasoline, it would be much cheaper to invest in the existing main refinery at Esmeraldas, which is already supplied via two pipelines and has an ocean port which the El Aromo site lacks. The investment would thus automatically cost \$3b less than in Manabí. The environmental implications of the Manta refinery are also very worrying and would affect not just the wildlife, but the tourism and fishing industries that are the lifeblood of Manabí's coastal economy. Sadly, it's always difficult to convince politicians that the best course after wasting money on sunk costs is to stop piling more money into failed projects.

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