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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Jun 11 – Jun 15, 2018

Resuming Diplomacy

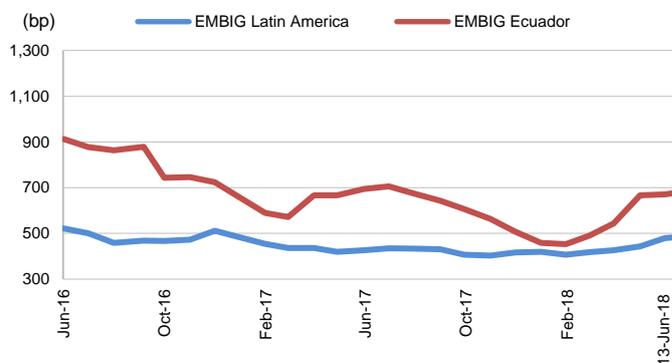
At some moment in the past six weeks, president Lenín Moreno appears to have decided to move more resolutely towards the political center. Taking forward his May 24 pledge to restore Ecuador’s institutions, bloated and abused under his authoritarian predecessor, Rafael Correa, he has appointed a business-friendly new finance minister, Richard Martínez. He followed up this week with a career diplomat, José Valencia, as the new foreign minister. Valencia faces several major challenges, but enjoys significant domestic and international goodwill.

María Fernanda Espinosa, his predecessor, may have believed that she could do practically anything that she wanted, including usurping Moreno’s role as the person in charge of foreign policy. She was successful in running for her new position as this year’s president of the United Nations’ General Assembly. This however came at the cost of undermining Ecuador’s reputation in the region, reneging on Ecuador’s pledge to support her Honduran peer, Mary Elizabeth Flores. Honduras involuntarily did much to weaken her bid, holding an election marred by fraud allegations and, what probably mattered most among the United Nations, deciding to move its embassy in Israel to Jerusalem. Nonetheless, despite her claims to the contrary, Espinosa can’t expect to return to the Palacio de Najas after her New York sojourn: Just before naming Valencia, Moreno blamed her for granting Julian Assange Ecuadorian citizenship last year, the first time he publicly chastised her performance.

Bond	Last Price (end of the month)						
	2018						2017
	15-Jun	May	Apr	Mar	Feb	Jan	Dec
Global 2020	103.93	104.12	103.10	108.42	108.75	109.98	110.94
Global 2022	104.83	105.36	105.54	111.06	113.07	116.32	117.48
Global 2023	96.08	97.75	97.89	104.68	106.64	110.12	110.67
Global 2024	91.84	94.06	94.11	100.70	102.06	106.04	106.60
Global 2026	96.35	99.08	98.50	107.37	110.44	114.40	115.03
Global Jun 2027	95.92	98.70	98.11	107.08	110.35	113.76	114.73
Global Oct 2027	91.67	94.49	94.36	102.19	105.58	109.17	109.90
Global 2028	85.70	88.66	88.53	96.76	99.23	102.04	-

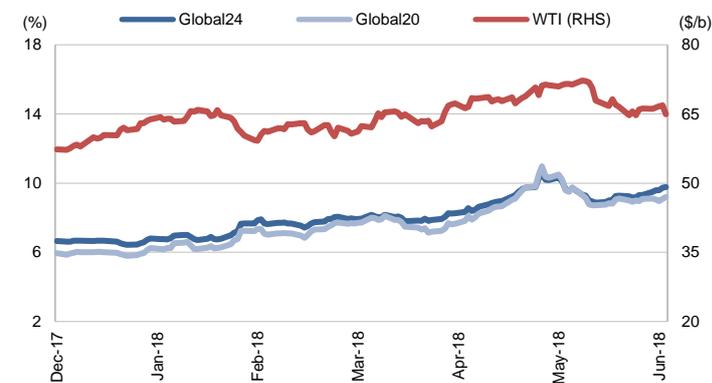
Source: Bloomberg and Analytica

EMBIG Spread



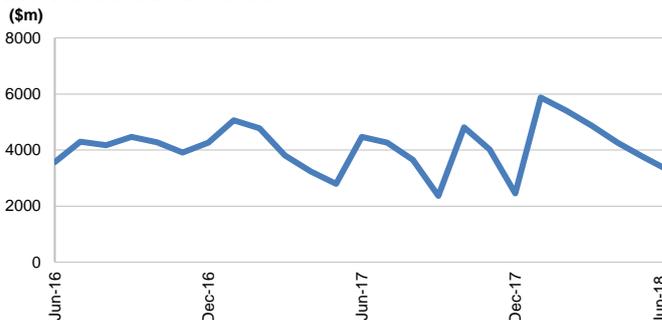
Source: JP Morgan and Analytica

Bond Yields vs. WTI



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

The president inaugurated a recent Council of the Americas event in Quito during which he indicated a major practical shift in foreign policy. Ties will now be focused most strongly on trading partners, thus leading to a “special relationship” with the US, Moreno said. His frequent use of superlatives and platitudes does mean that his comments need to be seen in context. His position continues to be relatively tepid on both Venezuela and Nicaragua. Moreno does however de facto appear to want a real break with the recent past. This implies taking Ecuador out of the orbit of Cuba and its de-facto colony of Venezuela and sets the stage for the visit of US vice president Mike Pence in Quito late this month. Pence will be the first top US government visitor to the country since Hillary Clinton in 2010. Cuba-friendly former defense minister Patricio Zambrano was meanwhile sent to a golden political exile to Paris as Ecuador’s representative at the UNESCO.

Valencia, previously Ecuador’s ambassador at the Organization of American States, has decades of experience at the foreign ministry. While he did have early sympathies for Correa, he was dismayed by how things turned out, according to a personal acquaintance of his. In early statements, Valencia has promised a professional management of foreign policy and a return of the Roldós Doctrine, which means that non-intervention in affairs of other countries is now tempered by the wish to strictly observe human rights. Major countries with whom the relationship appears comfortable include Canada, France, and Germany. Ties with Britain and Spain have suffered thanks to the asylum granted Assange, and finding a way out of that situation will be one of Valencia’s policy challenges. Nobody but the yellow press and, perhaps, Assange himself can be interested in a scandalous removal from the embassy, but the stalemate has become compounded by Assange’s own alleged crimes against his hosts (by hacking the embassy’s

communications systems) and his new Ecuadorean citizenship.

Another area where Valencia faces work is defining Ecuador’s role in the Latin American diplomatic theater, in which it was previously in the Cuban-led camp. Solving the Venezuelan and Nicaraguan crises poses a huge test to the whole region. Elsewhere in the vicinity, Ecuador needs to do some minor patching up with Brazil and work at rebuilding trust with trading partners in the Andean Community. Ties with Colombia have the potential to be complex due to the problematic security situation related to narco-terrorist activities along the border. Ahead of the election, neither country has shown the diplomatic skill to address the situation properly. Under the likely victor in Colombia’s election, Iván Duque, Ecuador will have to face the prospect of again becoming an unhappy “anvil” to a Colombian emphasis on the military to deal with rebels and drug traffickers (we believe only legalization of currently illicit drugs will eventually resolve the problem).

At the same time, Valencia will head a ministry that Correa’s longtime foreign minister, Ricardo Patiño, bloated in a bid to try to make it into a vote-getting organization. Domestically, this meant indiscriminate hiring as long as they were sympathizers of the governing party. Embassies, in particular consular offices, swelled to seek the votes of Ecuadorians living overseas. Some observers worry that correístas among the staff could undermine Valencia. This appears unlikely given that potential correístas have had no success in resisting reasonable policies in other ministries under new management. Bureaucrats have shown little loyalty to whoever hired them (and who was also likely to pepper them with insults for whatever real or perceived slight could emerge), preferring instead to show loyalty to the new person signing paychecks. It is also difficult to see how ministry officials might actively work to undermine foreign policy, except at embassies run by hardliners like María Augusta Calle

in Havana. Fortunately, much like at the new finance ministry, Ecuador still has a deep pool of talent outside the foreign ministry to provide external policy advice and support in rebuilding.

Downward Spiral

In August 2012, Fernanda Balda, an opposition political activist close to the populist Patriotic Society Party (PSP), suffered an attempted kidnapping in Bogota quickly foiled by the Colombian police. The investigation led back to Ecuador, implicating former Ecuadorian spies who are now seeking to say they obeyed orders from the top levels of government. Several former intelligence operatives are now in jail. Based on their testimony, the prosecutor general, Paúl Pérez, now wants to indict former president Rafael Correa for his role in what Pérez calls a “state crime.”

Balda had long been a thorn in Correa’s side. An alternate PSP legislator, he fled the country in 2009; the government wanted him jailed as a national security threat after he accused the government of spying on local citizens (a claim subsequently proven to be true). According to Balda, the case reemerged after the Colombian judiciary sought international assistance, ignored for years by Galo Chiriboga, prosecutor general at the time. In a plea bargain to reduce their sentences, three Colombians jailed for the kidnapping attempt had said that they had been hired by three Ecuadorians, all of them working for the National Intelligence Secretariat (SENAIN) that Correa created in 2009. Chiriboga’s successor, Carlos Baca, took up the investigation in January. In March, this led to the arrest of the three SENAIN agents.

The case reads like dime-store pulp fiction. A combination of arrogance and carelessness made it relatively easy for the Colombians to follow the trail to Quito. Raúl Chicaiza, according to investigative news site *PlanV* an experienced undercover agent, rented the car used in the kidnapping under his own name.

The presidency also published the travel expenses of the agents that coincided with the crime on its transparency web site, as well as for SENAIN head Rommy Vallejo, all approved by Correa’s secretary. She can hardly have ordered that without the approval of her boss. Correa’s lawyer, former legal advisor Alexis Mera, has defended him by saying that he would never have permitted such a crime. On his part, Correa delivered testimony at Ecuador’s Brussels consulate (he now lives in Belgium, from where his wife hails), denying that he had been involved and even that he knew Pablo Romero, a former SENAIN director he appointed and who is also under investigation and now on the INTERPOL red list. Among other *correísta* officials, former interior minister José Serrano could also be implicated. Unlike his former boss, as a legislator, he enjoys parliamentary immunity.

At the close of this edition, Ecuador’s congress had voted that it had no right to block Correa’s indictment after a judge had asked the legislature to comment. Correa will thus be indicted in due course. The case looks troublesome for the former leader, whose remaining allies failed to rally significant numbers of street protestors ahead of the vote, and who unwisely thought attacking media and trying to break through a police cordon at the legislature were good ideas. With the noose appearing to tighten around Correa, newspaper *El Universo* cited unnamed family members of the implicated agents worrying for their safety. President Moreno has promised to lift confidentiality in this and several other major cases, so Correa’s legal woes are just starting. Killings occurred in several of these; security of the witnesses is therefore indeed a major concern.

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