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ECUADOR WEEKLY REPORT[®]

KEY INDICATORS

For the week of Feb 27 – Mar 03, 2017

Times They Are A-Changin’

Campaigning has continued unabated after the Feb. 19 elections narrowly set the stage for a runoff between Lenin Moreno, former vice president (2007-2013) and representative of the incumbent Alianza Pais (sic) movement, and conservative challenger Guillermo Lasso (CREO), a career banker. Unsurprisingly, president Rafael Correa, too, has launched into the campaign, with a flurry of ribbon-cutting particularly in the earthquake-hit provinces of Esmeraldas and Manabí and endlessly repetitive prime-time television interviews. Moreno has launched scathing attacks on Lasso, defending what is quickly becoming a singularly dirty campaign as correísmo fights for survival. It’s unclear that the smear tactics will work.

Lasso, meanwhile, has said that he would be willing to broaden his political base by negotiating with the candidates who fell short in the first round of the election including, crucially, the Social Christian Party mentor Jaime Nebot, mayor of Guayaquil. Ideologically similar, yet politically a staunch rival, Nebot has pledged to support Lasso as strongly as possible. How far that will go remains to be seen. Among the left, Lasso’s conservative Catholic background raises fears; some see him as a potential hardline right-winger, of which neither his political pledges nor his brief trajectory in public office gives even the slightest whiff.

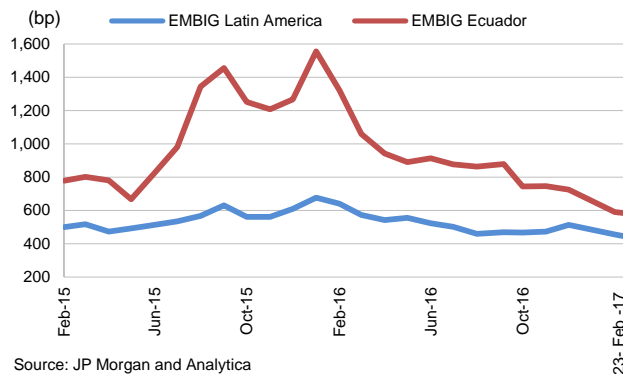
Ahead of the runoff, Lasso presented political olive branches to two prominent leftwing groups, promising to restore the teachers’ union dissolved by the

Ecuador’s Global Bond Prices

Bond	Last Price (end of the month)						
	3-Mar	Feb	Jan	Dec	Nov	Oct	Sep
Global 2020	109.31	110.18	109.52	107.89	105.54	106.13	102.51
Global 2022	110.88	111.82	112.25	108.81	104.94	106.11	102.47
Global 2024	99.01	100.41	99.07	95.92	92.15	94.55	90.25
Global 2026	107.73	108.65	105.96	102.50	N/A	N/A	N/A

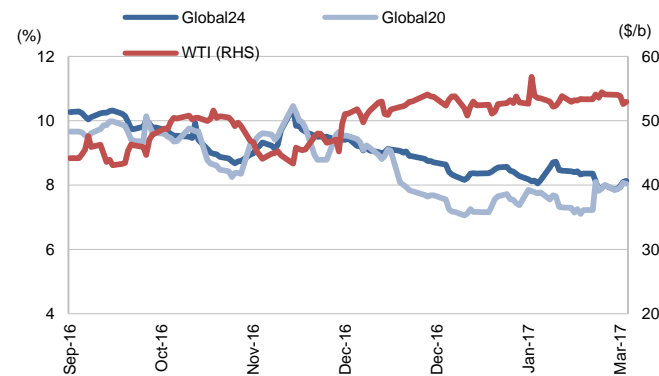
Source: Bloomberg and Analytica

EMBIG Spread



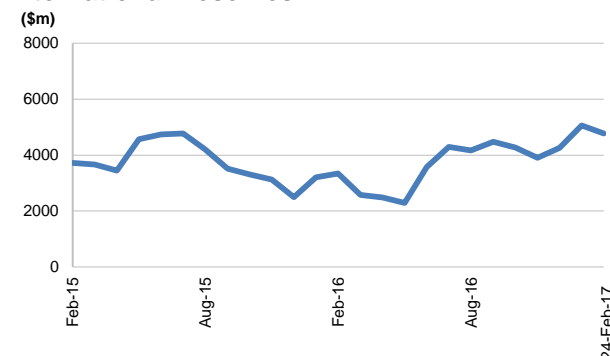
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

government and to hold binding local referendums on mining projects. The latter may well have helped him to win a majority of provinces with a large number of indigenous voters in central and eastern Ecuador. In an interview with *El Comercio* this week, Lasso said he would be willing to include pledges made by some of the other candidates into his political platform, including on public housing by Cynthia Viteri (PSC), drinking water by retired general and former Quito mayor Paco Moncayo, and the “aspirational” hopes for low-income Ecuadoreans addressed by populist Dalo Bucaram.

Lasso appears to be resonating better with voters than Moreno, not at all unusual for runoffs in the past generation. Cedatos, which came out head and shoulders above the other pollsters in the first round of the election, for the week after the vote reported that, in a simulated ballot, 52.1% of those polled picked Lasso, with 47.9% going to Moreno (blank and null ballots don't count in the election). Among voters who went for other candidates in the first round, a majority among all of them said they would choose Lasso. In stark contrast with the first round, when there a large number of people waited until the last moment to decide who they'd vote for, Cedatos reported that 81% had already decided for the runoff. The nationwide poll of 2,862 people in 23 cities and towns had a 3.4% margin of error. On his part, Correa said that AP has a “poll that we haven't published” in which Moreno leads Lasso by 20 percentage points.

Moreno and AP have reacted to the disappointing electoral performance, which included a steep fall in the number of its legislators, by adopting a hardline stance in line with the president's abusive language. Correísmo has rallied around claims discredited many years ago that Lasso, as the main shareholder in leading commercial bank Banco Guayaquil, was to blame in the 1999-2000 financial crisis. This may reflexively appeal to those stung by Moreno's failure to win in the first round, and indeed continues to strike a chord with some people. Yet the president himself

said that the time may now be for Ecuador to move on to being led by a “wise king rather than a warrior prince.” But beyond the unfortunate monarchic reference, Moreno has done the opposite, chiming in to the banker-bashing with which AP has responded. After teachers from a pro-Correa union marched past Banco Guayaquil's main office in Quito, Rosa Orellana, an AP legislator-elect, in a tweet posted a photo of the event and said they were “People outside of Banco de Guayaquil... trying to get the money out...” Asked if her incendiary remark couldn't trigger a bank run, she claimed it was only “a super blunt joke.” Moreno harped that Lasso's track record was the banking crisis and that he only created jobs in Spain and elsewhere for the many thousands who emigrated (an entirely ludicrous claim), and defended incidents in which correísta sympathizers threw cans of donated tuna at Banco Guayaquil as “freedom of expression,” while people in the past have been stopped by police and Correa himself for raising the middle finger at the presidential motorcade. The banking association rejected involving banks in the campaign and asked regulators to clamp down on this kind of activity, but this is likely to go unheeded. His aggressive stance dismembers Moreno's previous appeal as a more gentlemanly sidekick of the aggressive Correa. To win over opponents, Moreno would have to return to his moderate stance. With a month left before the final showdown, according to Cedatos, it may well be too late for that.

Mysterious Ways

Ecuador spent around \$110m on the election, yet among those who supported an opposition candidate, none doubt that it took courage by several institutions, including the army, and thousands of demonstrators in several cities to ensure the will of the voters was respected by the National Electoral Council (CNE) in the end. Signs of wrongdoing are numerous, but so far have been swept under the rug by the CNE, in part reflecting what appears to be lethargy by political

parties in general. The damage appears to be limited at present. If Lasso wins, the scandal will be large enough to trigger a restructuring of the CNE after this year's elections to return it at least to the relative impartiality it had before the advent of *correísmo*, a time when, for all its faults, the cleanliness of elections was less disputed than now.

Among reported incidents, hundreds of identity cards were found buried in a field; marked ballots favoring Lasso in trash cans; hundreds of people reported relatives who had long passed away but still registered to vote; so were Ecuadorians who live overseas. Additionally, people reported they were told to vote at another precinct at the last moment. When linked to identity card numbers, supermarket receipts helpfully told people where to vote (in Ecuador, people can deduct some food costs from taxes), but activists fumed that the electoral roll had been handed to companies but not to political parties for review. The CNE said it gleaned the roll from data provided by the civil registry; but at 12.8m voters, the roll was vastly larger than the estimated population 16 and older (11.2m) by the National Statistics and Census Institute (voter registration in Ecuador is automatic hinging on ID cards and addresses; it's up to individuals to notify the CNE if they move). Ana Mercedes Díaz, a Venezuelan-American former head of Venezuela's CNE invited by some opposition activists to witness the vote, said that she found that some 516,000 voter registrations had no basis in civil registry records. Some people registered to staff the electoral precincts said they were turned away by "Venezuelans" and "Cubans" previously seen at an "electoral control center" in northern Quito.

International electoral observers included the Organization of American States and the Union of South American Nations. The OAS observers noted isolated cases of marked ballots, some weaknesses in the IT infrastructure of the vote counting system, and uttered a veiled criticism at Lenin Moreno for celebrating a supposed victory in the first round rather

than waiting for firm results. On his part, the head of the CNE, Juan Pablo Pozo, pulled the nationalist card to defend his organization, saying that "those who speak of a possible fraud, more than damaging the National Electoral Council, are putting in doubt Ecuadorian society, are putting in doubt our people." Yet the CNE faced plenty of embarrassment. It never published the electoral quick-count that it hired (see EWR835). The quick-count published by non-governmental organization Participación Ciudadana proved essential at dispelling the myth of the first-round Moreno victory the government was attempting to build. With the count slowing to a crawl, the army said it would protect the integrity of the ballots, a stinging criticism of the process and missile launch across the government's bow that has understandably been kept rather quiet.

Improbably, after 90.2% of the votes had been counted, the previously stable returns started showing a marked gain for Moreno. While failing to push the government candidate above the 40% he needed to win the vote without a runoff, it presented him as within a whisker of winning. President Correa and other AP notables put the situation on its head, claiming that insiders bribed by the opposition had previously held back the data favoring Moreno. For the second round, Andrés Páez, Lasso's running mate, has announced beefed-up surveillance. The events of the election do prove that Correa had inside information during the day and amid the scrutiny. His prediction that AP had won 74 seats in the legislature, 54% of the 137-member congress, even though AP had just 39% of the votes. Challenged on the matter during the foreign media press conference, Correa justified the situation with the need to distribute seats according to a distribution method, in Ecuador the Webster system for legislators elected in national lists and D'Hondt for those representing districts and provinces. He didn't answer the question fully however, since it aimed at the root of the distortion, the districts gerrymandered in 2012 and that handed

AP a supermajority of more than 70% with less than 55% of the vote. Fraud thus didn't necessarily impact the end results of the election, but a less-than-level playing field certainly did.

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