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**ECUADOR WEEKLY REPORT<sup>®</sup>**

**KEY INDICATORS**

**For the week of Mar 20 – Mar 24, 2017**

**Too Close to Call**

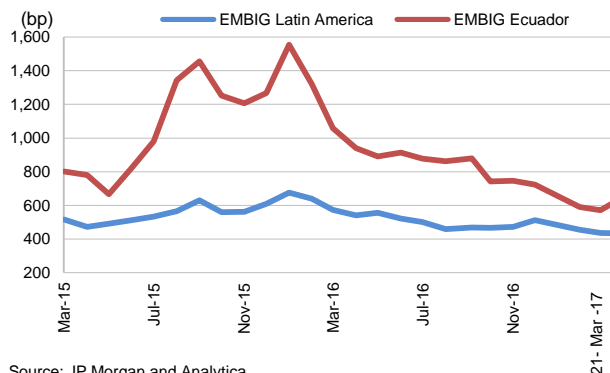
For decades, Ecuador’s political system has observed an absurd rule prohibiting the release of opinion polls beyond 10 days before an election. In the case of the 2017 election, when voters on April 2 in a runoff will choose between the continuity of a model based on massive public spending and centralization of political and judicial control in the president and an economically orthodox, liberal and democratic model led by a conservative, the final surveys were inconclusive. Several polls gave Lenin Moreno, vice president 2007-2013 and representative of the former, a double-digit lead over the challenger, candidate Guillermo Lasso (CREO), a multimillionaire who made his fortune with Banco Guayaquil. But these were paid for by government mouthpiece *El Telégrafo* and had predicted a first-round win by Moreno ahead of the February 19 vote. Polls in the form of simulated ballots published by Cedatos and Market meanwhile showed Moreno with a lead of 52.4% and 52.1% to Lasso’s 47.6% and 47.9%, respectively. An unreleased poll by consultancy Informe Confidencial had both tied at 50% (one of the changes imposed on electoral rules by the administration of president Rafael Correa is that null and void ballots don’t count despite obligatory voting, reducing the threshold for the victor; hence Moreno or Lasso can win even if he obtains a bit less than 50% of the popular vote). Turnout will likely be somewhat higher than in the first round because Ecuadorians are obliged by law to vote and need proof of voting to carry out numerous bureaucratic procedures. Each

**Ecuador’s Global Bond Prices**

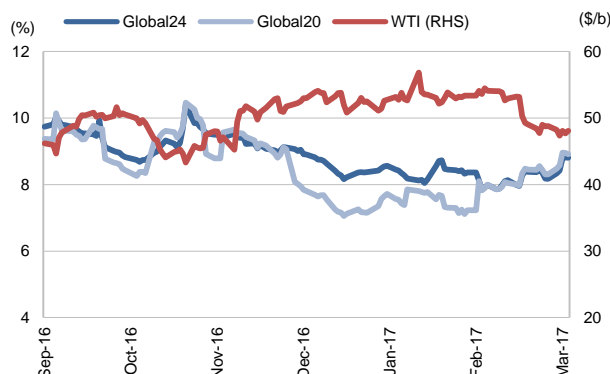
Bond	24-Mar	Feb	Last Price (end of the month)				Sep
			Jan	Dec	Nov	Oct	
Global 2020	106.66	110.18	109.52	107.89	105.54	106.13	102.51
Global 2022	107.28	111.82	112.25	108.81	104.94	106.11	102.47
Global 2024	95.47	100.41	99.07	95.92	92.15	94.55	90.25
Global 2026	103.70	108.65	105.96	102.50	N/A	N/A	N/A

Source: Bloomberg and Analytica

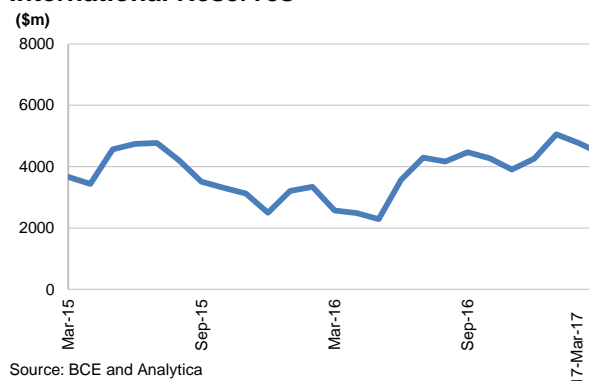
**EMBIG Spread**



**Bond Yields vs. WTI in 2017**



**International Reserves**



candidate is thus strongly compelled to campaign for every vote and avoid mistakes until the very end. Since in the second round, voters won't rely on polls to pick their candidate, the lack of information in the final phase of the election isn't necessarily a disaster. But the closeness of the vote paints a dark picture for the coming weeks, thanks also to the lack of trust in the National Electoral Council (CNE).

At around 15%, an unusually high number of voters remain undecided. People in the Lasso campaign estimate that these will largely ultimately go for their candidate considering that some 60% of voters did not pick Moreno in the first round (at 39.4%, he fell just short of the 40% threshold with a 10-point advantage over the runner-up, Lasso, to win outright). Indeed, Lasso appears to have the momentum on his side, growing much more strongly from his 28.1%, and many voters in the first round ended up making their final decision at the voting booth. But it's not necessarily that simple, as the polarization of the electorate shows. The flurry of ribbon-cutting and incessant national touring undertaken by Correa at government expense, not AP expense, is pushing the image of massive public building on voters in a country where public works continue to make a strong positive impression, despite the huge difference between promise and reality (some of the most ambitious projects have failed to come about and several have revealed to have been white elephants). The CNE has turned a blind eye to this and other unfair and illegal use of state property and propaganda to boost the Moreno ticket. Corruption scandals have had a negative impact on the image of the administration, but it's unclear how heavily this has weighed on Moreno's campaign. Vice president Jorge Glas, his running mate, has faced a heavy barrage of accusations of corruption in recent months, all of which he denies. While his photo was dropped from campaign posters, the issue has lost some of its traction as the polls show Moreno's effort weathering the storm.

On his part, Moreno in a meeting with foreign correspondents demanded Odebrecht, the Brazilian construction firm whose systematic bribery has led to an international scandal, release the list of politicians it had bribed. He added that he planned to fight corruption, which Correa still denies exists to a significant degree, by enlisting the aid of the United Nations, which supported Guatemala in a similar effort to stamp out white-collar crime (he denied he had received any exaggerated government payments thanks to his position in Geneva as a \$1-per-year United Nations' special envoy for the disabled, saying that his lucrative pay of \$1.6m annually had been approved by the comptroller general). Meanwhile, the prosecutor general and attorney general said that their negotiations with Odebrecht representatives in Washington had failed to reach a deal. Sadly, they said, there would be no word on who Odebrecht bribed because the company was demanding too much in a plea bargain, keeping the fabled list under wraps for the foreseeable future.

At the same time, the government has continued a libelous, dirty campaign aimed at discrediting Lasso as a business leader and blaming him for the 1999-2000 financial crisis. It's not clear that dragging up the crisis time and time again is undermining support for Lasso, but some fear exists of an eventual adjustment process of the type that has hit Argentina and Brazil after they left behind their most recent leftwing populist administrations. Apart from tepid public support on their part, it's not clear that other opposition leaders, including Lasso's nominal ally, Quito mayor Mauricio Rodas, are making efforts to help build support for him, even though Lasso has been able to obtain pledges of support from numerous individuals across the non-correísta political spectrum.

Fear of fraud at the polls meanwhile runs deep as the slow vote-count and statistical oddities of the first round has hammered the image of the CNE. Stung by the inability of Moreno to win outright on February 19,

despite correísmo's political control over the body, officials launched into diatribes alleging fraud in favor of Lasso. After Correa on March 6 removed the high command of the army, which is in charge of security and transport of the votes, the former commander said the chain of custody of the ballots had been interrupted. Coupled with the closeness of the race, which reminds many analysts of the hair-thin victory of Pedro Pablo Kuczynski in Peru last year, this will easily spell trouble for April 2 and the following days as neither side will be quick to concede a loss. While a single ballot, rather than the complex system of votes for legislators and the added factor of a referendum ballot voters and vote-counters had to deal with on February 19, makes it more difficult to commit fraud, only a few manipulations could be needed to swing the election. If the outcome of the vote is as close as the polls imply, the CNE's tarnished reputation will likely provoke the losing side to take to the streets to protest the results.

### **Throttled**

Ecuador, which returned to OPEC in November 2007, promised the international state oil cartel that it would cut output to 522,000 barrels per day as its contribution to the effort to shore up prices for its top export. Official data from recent days put output just above that level. Despite incorporating new oil production from the Tiputini field in the second half of 2016, oil production began to drop well before OPEC agreed its first output cut in eight years. Rather than solidarity with its oil-producing peers, domestic woes are undercutting production, as the case of Schlumberger reveals. According to local media reports, the French oil services company on March 14 asked president Correa to pay it an accumulated debt of \$1.1bn that it had to report to shareholders in January. At the time, it warned that it would have to reduce activities here given the arrears. As part of a deal for the Auca field in December 2015, it had already given the government a \$1bn loan upfront.

The request came despite a late-February statement by the oil ministry that it and upstream state oil company Petroamazonas were reaching out to companies to find an agreement regarding outstanding payments. The newspapers said the company appealed to the president personally given the lack of progress in the negotiations. Output at Petroamazonas's Shushufindi field has therefore been cut back by 10,000 b/d, *El Universo* reported.

As many in the industry had warned, the shift to fee-based payments imposed by the government in 2010 to replace production-sharing agreements resulted in an accumulation of debts with the companies once the price of oil fell, while output has stagnated. At the time, the government boasted that it would retain oil earnings even if the price of oil fell temporarily. But this apparently failed to consider that companies could be unable to keep up production levels if the slump was anything more than short-lived, particularly as Petroamazonas has been unable to invest its agreed share while investments made by service providers have actually materialized. Correa this week said that he would seek another \$1bn loan from China for reconstruction of earthquake-hit areas in Manabí and Esmeraldas. Some critics however see the problems with repaying Schlumberger as the real reason for the request for more Chinese cash.

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