



Ramiro Crespo
 Chairman of the Editorial Board
 WEEKLYREPORT@ANALYTICAINVESTMENTS.COM

ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Jun 19 – Jun 23, 2017

Lenin, Medvedev, Gorbachev

Many more than 1,000 words have been written about a group selfie published in recent days that had president Lenin Moreno at its center, surrounded by current and former top officials of Alianza Pais (sic), the feeble political movement that Moreno led to controversially and minimally cling to power in the April 2 presidential election. The picture included his predecessor, Rafael Correa. The presidency, notably, refused to comment, claiming it had nothing to do with it, and that any statement was up to AP. The party remained silent too; AP’s website has a 404 error message under its “statements and manifestos” tab. Commentators have speculated whether an imminent rupture will follow this attempt to show unity at the top, or whether Correa has managed to reassert himself after peppering the party with criticism from his Twitter account.

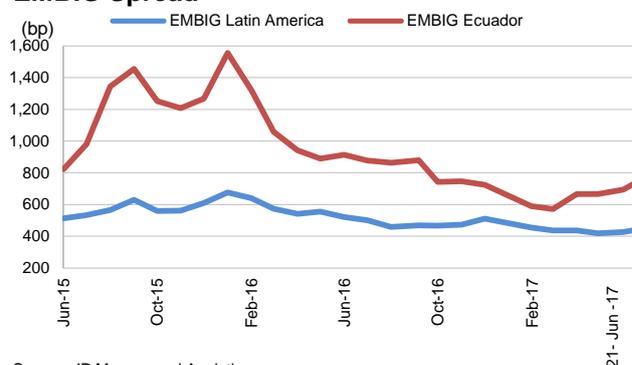
On Twitter, commentators dubbed the photo “The Sopranos,” “Les Misérables,” or “Goodbye Lenin.” Many noted that Moreno, at the center, barely managed a smile, compared with the grins of the others that resembled those of velociraptors in Jurassic Park. Still, after a start that had some observers express cautious optimism, the photo provides evidence of the weakness of the reform wing of AP close to Moreno, which from his inaugural speech onwards pushed for a political move away from authoritarianism. Critics note continuity in several key positions, notably the power of José Serrano, Correa’s former interior minister, as president of congress, or justice minister Rosana

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)					
	23-Jun	May	Apr	Mar	Feb	Jan
Global 2020	104.03	150.58	107.50	106.65	110.18	109.52
Global 2022	105.48	107.41	108.63	106.66	111.82	112.25
Global 2023	97.03	-	-	-	-	-
Global 2024	91.97	95.05	95.58	94.57	100.41	99.07
Global 2026	98.72	101.11	102.29	103.92	108.65	105.96
Global 2027	97.94	-	-	-	-	-

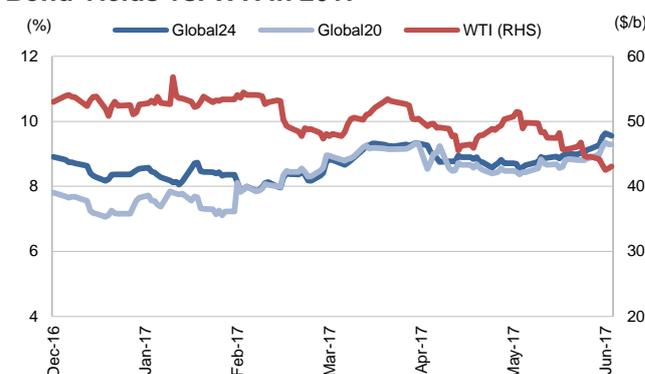
Source: Bloomberg and Analytica

EMBIG Spread



Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

Alvarado, a former AP legislator who just picked judge Lucy Blacio as her deputy – a judge known for her politically reliable willingness to bend and break judicial rules to advance the *correísta* agenda.

Jorge Glas, the vice president who has impudently refused to accept responsibility for the credible and massive corruption allegations against him, received a red-carpet treatment (literally) in congress this week, where he defended himself before a crowd of cheering AP sympathizers that led many opposition legislators to leave in protest. An anti-corruption panel named by Moreno failed to include critics of the previous administration and fell well short of asking for serious support from the United Nations to restore judicial independence. Keynesian finance minister Carlos de la Torre has so far fulfilled only the low expectations placed in him, continuing to obtain onerous short-term debt and towing the old line of “economic recovery.” People close to him say that he privately disputes this interpretation of the macroeconomic situation, but has refrained from risking a rupture with the all-knowing trained economist Correa. Some people having lunch at a Quito restaurant jeered at the former president long enough for him to abandon the place. But politically, Correa appears to have obtained a rollback at the end of Moreno’s first month in office.

It’s too early to tell how successful Moreno’s just-launched dialogue with non-governmental organizations will be. Under a *correísta* schematic, the dialogues will attempt to bring them into the AP fold, be they the CONAIE umbrella indigenous group or entrepreneurial organizations. This is however impossible unless there is some real devolution of power back towards civil society. The *correísta* faction of AP may be betting on controlling Moreno until economic realities make him unpopular, then dumping him to clamor for Correa’s Perón-like return to power in 2021. This could easily backfire as Moreno could then seek a clear break with his predecessor and seek an accord for governance with

conservative opposition parties. Indeed, he has made a significant show of meeting the mayors of Ecuador’s biggest cities this week, including those of Cuenca, Quito, and, most significantly, a two-hour conversation with the de-facto leader of the Social Christian Party, Guayaquil mayor Jaime Nebot. Rather than being a puppet placeholder like Russia’s Dmitry Medvedev, Moreno could end up forced to be a Mikhail Gorbachev, and thus a more-or-less willing undertaker of AP.

Testing the Water

Even before 2007, Ecuador was an exotic territory for mining companies. While it never suffered from the political violence that neighbors in the region went through in past decades, political instability led foreign investment in this and other industries to avoid the country, culminating in a 2008 decree prohibiting large-scale open-pit mining that derailed investment despite the huge boom in global mining. The political lessons for the economic debacle appear to have been learned and industry interest has at least been piqued. According to mining minister Javier Córdova, Anglo-Australian mining giant BHP Billiton on June 16 received two four-year exploration concessions on which it plans to spend \$41m.

Considering its status as a major player, BHP Billiton’s arrival could signal a watershed moment for mining in Ecuador, even with its comparatively modest investment. In oil, where Ecuador has more than 40 years of significant experience, the participants in the industry are relatively modest or politically linked, the latter being the case for Chinese oil major CNPC and its affiliates. Mining company Newcrest has also increased its share in Australian SolGold’s Cascabel gold and copper project, also according to Córdova, who said the investments reflect increasing industry approval thanks to the existence of an appropriate contract, regulatory, and tax regime, which Córdova hinted could be changed if companies find details hold stumbling blocks. After

all, foreign investment in mining will boost dollar inflows, a stated key interest of the administration.

Environmentalists however strongly question the prospects of large-scale mining for the country in general. They point out the failed promises of the oil industry, whose development did not in fact lift the country out of poverty, particularly not communities in oil-producing areas. For potential mining areas, they fear a repeat. Indeed, considering the devastation wreaked by ongoing illegal mining and the risk of major cleanup costs, officials should err on the side of caution. The mining ministry has recently announced the start of negotiations with affected communities. Given a weak track record and the violence surrounding the Shuar communities around the hamlet of Nankints, where Chinese-owned Exsa is building its Mirador copper and gold mine and the conflict has led to deaths and displacement of local residents, it's paramount for the entire industry that a credible solution is found. Similarly, in the Intag valley, it's unclear that a robust environmental plan is in place for the Llorimaguas copper project to deal with the high rainfall of this forested area. Mining development was stymied during the last decade due to government greed and incompetence, not environmentalism. To rush in now without considering the natural heritage would be disastrous.

Still Politicized

After a brief struggle over control of the comptroller general's office, from Miami, Carlos Pólit called it quits. The president of congress, José Serrano, publicly announced that Pólit had sent the legislature, which as recently as March had sworn him in for his third straight five-year term, his resignation. Congress will nonetheless continue with the impeachment process against him after police searched his home in Guayaquil and his luxury hotel suite in Quito on June 2. Before the search, Pólit had left the country under a medical leave of absence (he also owns property in Miami), and he cited these

health problems as his reason to quit. Pólit becomes the third top official to have moved to Miami shortly before arrest warrants were issued since Pedro Delgado, president of the central bank and the state holding company for assets obtained in the 1998-2000 economic crisis (and second cousin of former president Rafael Correa) in 2012 and Carlos Pareja, a former oil minister, last year. Among them, Pareja confirmed suspicions that he had received a tip to leave.

Pareja has also alleged that he handed Pólit and his deputy, Pablo Celi, briefcases full of cash at a luxury hotel in Quito to obtain favorable accounting from the comptroller general's office. As in the case of Pólit, these accusations have failed to move prosecutors to investigate Celi. In the case of Pólit, they only acted against him after Brazilian judicial officials handed over information regarding alleged bribes by construction firm Odebrecht, which is at the center of an international corruption scandal throughout Latin America and reaching to Portuguese-speaking Africa. Thus, Serrano said that Celi is now acting comptroller and will continue on until the Venezuela-inspired Citizens' Participation and Social Control Council (CPCCS), the unelected body that picks top judicial and regulatory officials tightly controlled by government officials, chooses a permanent successor.

Should the CPCCS convene to pick Celi would hardly be a surprise. Opposition presidential candidate Guillermo Lasso and others have demanded the CPCCS be shuttered due to its lack of independence and democratic legitimacy, and its board is under fire for having reconfirmed Pólit given that his running of his office has been controversial for years amid the huge body of evidence regarding corruption. Political reasons meant that Celi was permitted to stay on by the government rather than having Pólit pick a successor, as he tried from Miami. The specifics for wanting to keep control of the auditing records are not clear, beyond an attempt to

keep the corruption crisis at bay. They may well become more obvious over the coming months.

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