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ECUADOR WEEKLY REPORT®

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Lenin's Letter and Lasso's Challenge

The National Electoral Council (CNE) last week announced the schedule for the 2017 elections. While constant propaganda has subjected Ecuadorians to a non-stop electoral atmosphere for a decade, this will intensify during the official campaign for the short period between January 3 and February 16, when the quiet period ahead of the February 19 first-round presidential vote and the legislative election goes into effect. If necessary, the runoff will take place on April 2nd. But posturing and positioning is well underway, both within the ruling political movement, Alianza Pais (sic) and among opposition parties.

AP's fortunes have been so strongly tied to that of president Rafael Correa that criticism has emerged internally over its lack of an ideological profile; in fact, even some AP members see the organization as nothing more than an electoral vehicle. With Correa still insisting that he won't run again, the movement has a very popular potential candidate in Lenin Moreno (vice president 2007-2013). Speculation emerged however that he might run for another party, with which sources say he indeed entered in serious negotiations. This motivated Moreno, from his \$1 annual position at the United Nations in Geneva paid for by Ecuador, to write Correa a letter

ECONOMIC INDICATORS

Ecuadorian Global Bonds (Feb 25, 2016)

	BID	ASK
Global 2024	71.00	72.00
Global 2030	62.00	68.00

Source: Bolsa de Valores de Quito

BCE International Reserves In million US\$

Jun, 2015	4,739.19	38.00%
Agu, 2015	4,201.41	-11.00%
Oct, 2015	3,308.36	-21.00%
Dic, 2015	2,495.96	-25.00%
Feb 19, 2016	2,992.04	19.88%

Source: Banco Central del Ecuador

Inflation

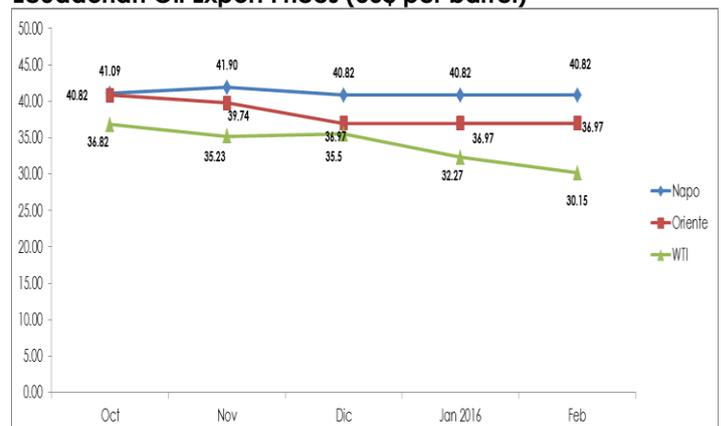
Jan 2016	0.31%
Year to Date	0.31%
Year on Year	3.09%

Banks – Short and long term Deposits In million US\$

Oct, 2015	14,582.60	0.58%
Nov, 2015	14,313.10	-1.85%
Dic, 2015	14,554.40	1.69%
Jan, 2016	14,868.90	2.16%
Feb 12, 2016	14,905.70	0.25%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

pledging unflinching loyalty to AP. Moreno's apparently decision to throw in his lot with AP, for better or for worse, has led to fresh speculation.

Some observers note that his in-house power has been growing as vice president Jorge Glas has failed to gain popularity among voters. Moreno has a conciliatory image that contrasts with Correa's divisive populism, which, coupled with the cooling economy, have weighed on the president's approval and credibility ratings (though they remain high at above 45% each, according to pollster Cedatos). On his part, Glas has cast himself as a can-do leader driving the expansion of infrastructure. But the economy could continue to undermine the popularity of Correa, and Glas is already short one key ribbon-cutting ceremony: Coca-Codo Sinclair, at 1500 megawatts the biggest of the highly-touted hydroelectric plants, was supposed to go online this month but remains unfinished (instead, Glas went to view tests at 487MW Sopladora). This benefits Moreno as he and Correa have become immersed in a struggle over who Moreno's running mate and even future cabinet members should be, according to sources. Whether Moreno's "good cop" role in the administration may come back to haunt is a risk he will have to consider. Some see his letter as a smoke screen while he continues to negotiate power with Correa and center-left opposition groups.

Meanwhile, supporters of Guillermo Lasso, a conservative former banker, have made much ado of an opinion poll by Cedatos, the local affiliate of Gallup, that shows him trouncing Glas in a hypothetical vote with several other potential and declared candidates and even forcing the still-popular Correa into the runoff

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Feb. 15 to Feb 19, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	248.18	2.10	25/02/2016
SUPERDEPORTE	42.54	6.05	19/02/2016
HOLCIM ECUADOR S.A.	29.92	67.00	22/02/2016
CONCLINA	23.75	1.20	17/02/2016
FIDEICOMISO OMNI HOSPITAL	14.00	7,000	25/02/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	9.80	3,240	19/02/2016
FIDEICOMISO GM HOTEL	2.70	2,700	22/02/2016
MUTUALISTA PICHINCHA	1.00	99.99	17/02/2016
BANCO PICHINCHA	0.48	0.47	19/02/2016
SOCIEDAD AGRICOLA E IND. SAN CARLOS	0.02	1.05	15/02/2016

Source: Precios máximos y mínimos de acciones & Pulso Bursátil Semanal
Issued by: Bolsa de Valores de Quito.

Fixed Income					
Securities lead by Analytica					
Issuing Company	Issue Type	Total Amount Issued (In Thousand US\$)	Credit Rating	Term (In years)	Yield of Return
OTECEL S.A.	Commercial Paper	50,000	AAA	1	4.25%
ECONOFARM SANA SANA	Securitization	12,500	AAA	5	7.25%
FARCOMED FYBECA	Securitization	12,500	AAA	5	7.50%
EDESA	Commercial Paper	10,000	AAA	1	5.25%
DEXICORP-GRUPO KFC	Commercial Paper	7,500	AA+	1	6.00%
URBANO EXPRESS	Securitization	4,000	AAA-	3	7.50%
		5,000		5	8.00%

(Lasso came in second to Correa in 2013, with the incumbent winning in the first round). For Lasso's campaign team, his past performance and the strides his Creo movement has taken setting up a domestic and international network (Ecuadorians overseas can vote) help him grow beyond what pundits have called his ceiling and a potential bias against ////career bankers. But

published polls have yet to pit him against the electoral elephants to his political left and right, Moreno and Guayaquil mayor Jaime Nebot, respectively.

While AP looks divided between Moreno, Glas, some still want Correa to reappear on the ballot after all. But the defeats of populist incumbents in Argentina, Venezuela, and Bolivia in recent months, not to mention of his own allies in local elections in Ecuador in 2014, make this unlikely. Meanwhile, the opposition is ambling along well-trodden paths of ideological and personal factions. Indigenous party Pachakutik is divided between pragmatists and leftwing hardliners. Unidad Popular, the former Movimiento Popular Democrático, has lawyer and former legislator Lenin Hurtado as its candidate. Both Lasso and Nebot have made some strides in allying themselves with organizations beyond the conservative Guayaquil establishment. This week, Lasso added centrist and center-left organizations and individuals to his allies, notably including Betty Amores, a former AP legislator. On his part, Nebot continues to work with SUMA, the centrist-conservative movement led by Quito mayor Mauricio Rodas, as well as some centre-left politicians like Pachakutik's Marcelino Chumpi and Paul Carrasco, the social-democratic prefect of Azuay province.

One overreaching concern that has led opposition parties to link up across their divides is electoral observation. Of course, the CNE, for all its closeness with AP, insists the voting will go ahead fair and square and transparently. Unconvinced, Correa's opponents have pledged to work together to ensure the procedure is clean. Before the vote, they will have two

opportunities to test the CNE. In August, the electoral body will update redistricting, giving it a chance to gerrymander, a key factor that helped AP gain overwhelming control over the legislature in 2013. A month later comes the publication of the electoral roll, which, according to the populist Partido Sociedad Patriótica led by former president Lucio Gutiérrez, currently contains tens of thousands of deceased among voters, a charge the CNE denies. Fortunately for independent observers, under Uruguayan Luis Almagro, the Organization of American States has shown more willingness to stand up for democracy than under his toothless predecessor, Chilean José Miguel Insulza. This may well be handy to bolster the transparency of Ecuador's next elections, as it already has in Bolivia and Venezuela.

Turbulence for Tame

Something of a controversy has emerged between online and traditional news outlets. Recently launched online outlets have begun to take some of the latter's thunder, but, despite the threat of fines from government regulators, these have in some cases struck first with scoops. As a result state-owned airline Tame finds itself in a difficult public-relations position. A week after newspaper El Universo's revelations about its losses forced the airline's chief executive Paola Carvajal to present a swiftly drafted recovery plan, online portal 4Pelagatos published a negative comptroller general's report (EWR788) that will likely lead to more controversy.

The biggest problem, and one that remains unresolved, is Tame's service to Caracas. In the space of just 15 months, between September 2012 and December 2013, Cadivi, the

Venezuelan government foreign currency administrator, ran up a debt with Tame of \$53.52m, more than \$10m more than was previously known. This sparked an emergency reaction to allow the company to meet financial obligations. It certainly wasn't the exception. Aviation body IATA calculated Cadivi's debt to airlines at \$3.7bn at the time, leading Tame, among more than a dozen airlines, to stop flying to Caracas. After Venezuela pledged to pay up, Tame swiftly resumed flights. But problems likely remain as other foreign carriers have pulled out of Venezuela, including Air Canada and Alitalia, and, most recently, Brazilian low-cost airline Gol.

The comptroller's report also criticized that the company spent \$18m out of \$25m in insurance money on operational spending, rather than on a plane to replace the irreparably damaged Embraer 190 that went off the tarmac while landing on September 16, 2011. Pelagatos reported that this failed to observe the letter of a contract with the finance ministry. This, however, doesn't look like a critical issue as a lack of planes is not the reason Tame has not kept up its standard routes. But the official use of Tame planes by presidential delegations on overseas trips has compounded financial difficulties, which Carvajal didn't mention. If losses in 2014 totaled \$48m, as she acknowledged, the presidency alone was responsible for \$1.41m in overdue payments.

Looking a bit more deeply at the structure of Tame's fleets, it only owns two of the four Embraers it flies and one Airbus A320 and A330, out of 14 non-Amazon area planes. A sale of the Embraers might indeed go a fair way to cut losses, but, above all, political use of the airline needs to end. A domestic market in recession will

weaken domestic demand, while Ecuador's relatively expensive prices after relatively high inflation, major cost increases, and the revaluation of the dollar will weigh on its outlook, regardless of whether it can find the strategic partner Carvajal pledged to bring aboard this year.

Tame, started in 1962, improved much once the US Federal Aviation Administration picked it, at a request from Ecuadorians, as a proxy for local aviation as the country sought to become upgraded from category II to category I, an essential step in improving security procedures and standards and professional knowledge of English. This was also essential to allow flights to the US by Ecuadorean airlines. As recently as 2002, Tame (also nicknamed Temo, or "I fear") was found to have the second-worst global security record after Cuba's Cubana in number of crashes per takeoffs and landings. Under president Gustavo Noboa, civil aviation passed to the civilian sector, removing the conflict of interest with the military, which ran Tame until the present administration. It's time to take the next step and remove politics from Tame. Its dire situation risks returning it, and as a result Ecuadorian aviation, to the dark days of "category II," with losses both economic and, worst of all, of human life. Already, social networks are full of complaints about Tame's service. Our editorial board, too, has too many negative experiences for these to have been extraordinary. After Tame refused to check luggage through to Santiago, forcing a scramble to make the connecting flight from Lima, our complaint had the airline removed from the international booking system that had offered the flight. This week, American hedge fund

managers travelling from Argentine on an investors's trip booked Tame as it has the sole direct flight to Ecuador from Buenos Aires. Their Wednesday afternoon flight was pushed back to Friday at 1am, and then once again delayed, leading to two lost days and cancellations of meetings at important, exchange-listed companies. Thus, Tame's negligence has a knock-on-effect on the image of the country as a destination for foreign investment.

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