

Election preview: Tipping point

- The electoral race tightened
- Swing voters from the indigenous movement could hold the key to the election
- Buy 0.5% 40s to play the possibility of a Lasso victory

Arauz's lead narrows as Lasso leverages in anti-Correa sentiment. Voting intentions for centre-right candidate Guillermo Lasso posted a material pick-up in the last month after the 21 March presidential debate, while those for former President Correa's party's nominee, Andrés Arauz, have remained stable. This is illustrated by Tables 1 and 2 that summarise the different polls' results before and after 21 March. Arauz's edge has narrowed from 7.1 to just 3.0ppt mostly due to the reduction in the share of blank and undecided voters. Even though the electorate showed a marked preference for the left in the 7 February first round, Lasso is ably playing the polarisation card to build on the strong anti-Correa sentiment and set up alliances. This could allow him to temper the negative perception in the electorate stemming from his past as businessman and banker. Also, Arauz's prospects might have been tarnished by the recent revelation that he had spent more than 10 years of his tenure at the central bank on leave and that he had received a USD27.5k severance payment. These factors, rather than an outstanding performance in the debate, are probably the main reason why the difference now lies within the standard 2.5 / 3.0 percent statistical errors of polls, pointing to a **technical tie** between both contenders. Table 3 below displays the list of first-round candidates distributed according to their endorsement to the runoff competitors and their 7-February electoral performance. Former presidential nominees currently backing Lasso had secured almost 19% of total votes (the bulk of which being explained by Xavier Hervas of the Democratic Left party), while those rallying to Arauz garnered a mere 3%.

Table 1. Summary of polls BEFORE 21-March presidential debate

Candidate	Perfiles Opinión	Eureknow	Click Report	CEDATOS	Omar Maluk	Average
%total votes						
Andrés Arauz	43.2%	38.1%	37.1%	34.4%	36.9%	37.9%
Guillermo Lasso	23.8%	35.7%	37.4%	31.1%	26.0%	30.8%
Undecided	7.4%	15.7%	12.2%	6.6%	11.7%	10.7%
Blank and Null	25.7%	10.5%	13.3%	27.9%	25.4%	20.6%
Survey date	20 to 24 Feb	1 to 12 Mar	14-Mar	16-Mar	5 to 20 Mar	
Sample size	4,056	1,400	760	n/a	8,504	
Interview methodology	n/a	Online	Personal	Personal	Personal	
Cities/Region	National	National	Guayaquil and Quito	National	National	

Source: BancTrust & Co based on publicly available polls

Table 2. Summary of polls AFTER 21-March presidential debate

Candidate	Perfiles Opinión	Eureknow	Click Report	CEDATOS	Omar Maluk	Clima Social	Comunicaliza	Estrategica Consultores	Atlas Intel*	Pulso Ciudadano	Average
%total votes											
Andrés Arauz	37.8%	39.6%	37.7%	38.2%	33.3%	34.1%	33.9%	43.5%	40.8%	39.3%	37.8%
Guillermo Lasso	30.2%	37.0%	40.0%	35.2%	28.7%	27.1%	32.7%	40.7%	39.4%	36.7%	34.8%
Undecided	0.0%	11.9%	8.1%	3.6%	12.0%	16.6%	16.3%	2.2%	0.0%	10.5%	8.1%
Blank and Null	31.9%	11.5%	14.2%	23.0%	26.0%	22.2%	17.1%	13.5%	19.8%	13.5%	19.3%
Survey date	24-Mar	23 to 31 March	29-Mar	23 to 26 Mar	21 to 31 Mar	23-Mar	26 to 28 Mar	23 to 28 Mar	25 to 31 Mar	25-Mar	
Sample size	2,411	1,400	760	2,782	3,600	3,738	5,233	1,448	2,191	2,191	
Interview methodology	Personal	Online	n/a	Personal	Personal	Personal	Online	80% Personal 20% Online	Online	Online	
Cities/Region	National	National	Guayaquil and Quito	National	National	National	National	National	National	n/a	

Source: BancTrust & Co based on publicly available polls

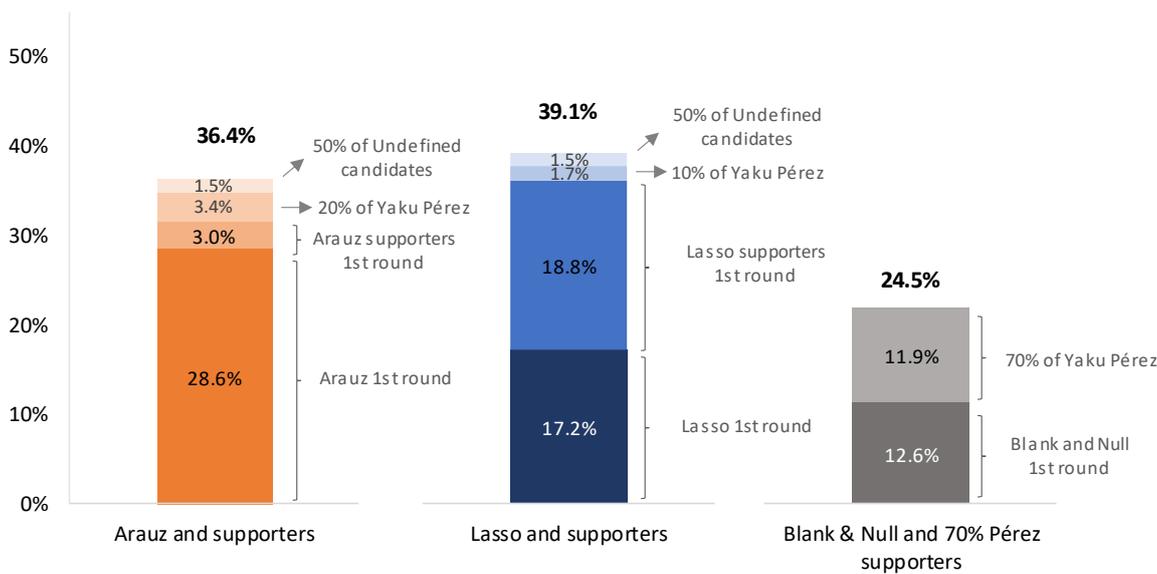
Table 3. First-round candidates' endorsement for runoff

Candidate	1st round votes (% of total)	Candidate	1st round votes (% of total)
Guillermo Lasso	18.9%	Andrés Arauz	3.0%
Xavier Hervas	13.7%	Isidro Romero	1.6%
Pedro Freile	1.8%	Ximena Peña	1.3%
Lucio Gutiérrez	1.6%		
Guillermo Celi	0.8%	Undecided candidates	2.7%
César Montúfar	0.5%	Juan Fernando Velasco	0.7%
Gustavo Larrea	0.3%	Gerson Almeida	1.5%
Paul Carrasco	0.2%	Carlos Sagnay	0.2%
		Giovanny Andrade	0.2%
Null or Blank	16.9%		
Yaku Pérez	16.9%		

Source: BancTrust & Co based on public and press statements

The behaviour of indigenous voters is key. We built a simulation based on the explicit support received so far by the runoff candidates and on the assumption of full transferability of votes. Undefined support has been distributed equitably between both contenders. On the other hand, despite Yaku Pérez's call to vote blank we assume that 20% of his former voters will pick Arauz and 10% Lasso. This could be an important source of uncertainty given the apparent rift that seems to be unfolding within the indigenous movement. In this regard, Jaime Vargas, the indigenous leader who steered the October 2019 protests, has publicly closed ranks with Arauz contradicting Pérez. The results of this exercise have Lasso as the winner of the runoff with a 2.7ppts lead (Chart 1). The main difference with the polls appears to boil down to the distribution of the undecided, as the simulation implicitly allocates almost two-thirds of the undecided to the segment of blank voters and the remainder to Lasso. In this regard, we think that the undecided could have a large share of indigenous voters that would ultimately sway the election.

Chart 1. Runoff simulation based on current alliances



Source: BancTrust & Co estimates based on CNE and former candidates’ public and press statements

Results could be disputed if they come in too tight. According to the National Electoral Council (CNE)’s Chairwoman Diana Atamaint, the release of the partial vote tally would begin at 7pm on 11 April and is expected to surpass 70% of ballots by midnight. It should be noted that the process will be much simpler relative to 7 February given that there are only 2 tickets compared to 2,537 back then (16 for president and the remainder for lawmakers). We cannot rule out that the proclamation of the official winner is delayed if any of the candidates dispute the vote count or allege any other irregularity. Nevertheless, based on the precedent of the resolution of Yaku Pérez’s fraud claims, we think that if any of these were to arise, they will be settled peacefully and through the corresponding institutional channels.

Buy 0.5% 40s to play the possibility of a Lasso victory. As we head into the election, we see upside from a Lasso triumph and use 5-February prices as a benchmark of what could be the market’s initial reaction to that scenario. On 5 February Ecuadoran bonds posted robust gains to a peak since 6 January on the back of pollster CEDATOS predicting a Lasso victory. The subsequent outcome of the 7 February first round triggered severe losses that have not been fully unwound since valuations remain on average 6% below 5 February. We would expect a spread compression in the range of 80-90bps stemming from a downward parallel shift in the yield curve. As a result, the long-dated bonds (i.e. the 0.5% 40s) would be poised for the largest upside regarding current prices (see Table 4). Importantly, the expected loss on the ECUASO 35 on Table 4 is mostly accounted for by the large bid-ask spread given this bond’s shallow liquidity. We do not see much downside in the event of an Arauz win, given that investors seem to be downplaying the possibility that his policies will immediately undermine dollarisation. Finally, we would see a buying opportunity in line with 8-February rout (see Ecuador Economics & Strategy: [A Buying Opportunity in the making](#), 8 February 2021) if the proclamation of a winner is held back and this is followed by a bout of price weakness.

Table 4. Expected price upside from a Lasso victory

	7-Apr-21			12-Apr-21			
	Yield (Ask)	Dirty Price (Ask)	Mod. Duration	Bid Yield (5-Feb)	Yield change (bps)	Dirty Price (Bid)	Return
ECUASO 0 01/30/35	11.8%	68.3	2.1	13.9%	207.8	65.5	-4.2%
ECUA 0 1/2 07/31/30	14.8%	61.3	4.8	14.1%	-76.3	63.9	4.2%
ECUA 0 07/31/30	12.6%	42.9	6.1	11.3%	-127.1	46.6	8.7%
ECUA 0 1/2 07/31/35	13.2%	49.1	7.7	12.3%	-87.7	52.9	7.7%
ECUA 0 1/2 07/31/40	12.1%	46.8	9.4	11.2%	-87.0	51.2	9.4%

Source: BancTrust & Co estimates based on Bloomberg

A sharper disinversion of the yield curve seems more likely under Lasso. We continue to expect some disinversion of the curve kicking in eventually once electoral uncertainty phases out. However, **for capital gains from the short-dated notes (i.e. the 0.5% 30s) to match those of the long-end (40s) the negative slope of the curve would need to fall by half**, from -0.25 to -0.12. Conditions for a sharper disinversion of the curve look more propitious under Lasso since the “willingness” factor is probably the main reason why markets are pricing in a higher default probability in the next two presidential terms. However, a positive sloping curve seems optimistic from where we stand today as the fragmentation of the National Assembly together with the strong legislative influence of the left would make governability extremely challenging.

Table 5. Breakeven yield compression for short-dated bonds to match capital gains from the long-end

	7-Apr-21			12-Apr-21			
	Yield	Dirty Price	Mod. Duration	Yield Movement (bps)	Yield	Dirty Price	Price movement (var%)
ECUA 0 1/2 07/31/40 (Bid)	12.3%	45.8	9.4	-130	11.0%	52.4	14.3%
Breakeven movement							
ECUASO 0 01/30/35 (Ask)	11.8%	68.3	2.1	-563	6.2%	78.1	14.3%
ECUA 0 07/31/30 (Ask)	12.6%	42.9	6.1	-204	10.5%	49.0	14.3%
ECUA 0 1/2 07/31/30 (Ask)	14.8%	61.3	4.8	-252	12.3%	70.1	14.3%

Source: BancTrust & Co estimates based on Bloomberg

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