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**Ecuador and bond markets: defaulter is back with a $2bn vengeance**

Jun 17, 2014 8:13pm[by Andres Schipani](http://blogs.ft.com/beyond-brics/author/andresschipani/)

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*By Vivianne Rodrigues and Andres Schipani*



Ignore [Argentina’s spiralling debt vortex,](http://www.ft.com/intl/cms/s/3/ad8c1ab4-f535-11e3-91a8-00144feabdc0.html) global investors’ appetite for higher-risk assets remains hot. On Tuesday, another “debt defaulter”, Ecuador, finally took the plunge into the global credit market with the launch of a $2bn bond issue.

The 10-year dollar-sale is the first by the Andean nation since it defaulted voluntarily on $3.2bn worth of debt in 2008, when Ecuador’s leftist President Rafael Correa bit the bullet, calling bondholders “real monsters.” It was was priced at a 7.95 per cent yield.

“Obviously, as this sale shows, I don’t think bondholders were ever really ever offended by Correa’s insults,” says Ramiro Crespo, who heads Analytica Securities in Quito, an investment bank.

The securities, which were sold through a [SEC rule] 144a private placement to “qualified institutional investors”, will carry ratings into junk territory.

Shunning the country’s bad credit history -six months after the default Ecuador bought most papers back at 35 cents on the dollar- the sale of these bonds underscores the immense appetite for even the [riskiest emerging market debt](http://www.ft.com/intl/cms/s/0/31abb3de-e106-11e3-b59f-00144feabdc0.html).

Bond funds dedicated to emerging markets have seen strong inflows recently. Analysts say there is a growing interest in the debt of riskier economies, as investors search for higher-yielding securities.

Total return on emerging market debt has surpassed the 8 per cent mark so far this year, according to JP Morgan Chase data. Gains in more exotic sovereign bonds have climbed to nearly 10 per cent in 2014.

“Markets have short memories,” says Win Thin, head of global emerging markets currency strategy at Brown Brothers Harriman. “Nothing trumps the fact that with yields in the US so low, people will keep searching for alternatives.”

The Ecuadorean alternative appears apt to many, it seems. After all, Ecuador’s dollarised economy grew 4.5 per cent last year and Correa, an economist trained in Belgium and the US, is known for being ideologically dogmatic, but he is also known for pragmatism when it comes to economics.

He has kept current with payments on a separate $650m bond that matures next year. Ecuador recently secured $400m loan from Goldman Sachs using part of [the country’s gold reserves as collateral](http://www.businessweek.com/news/2014-06-02/goldman-sachs-gets-ecuador-gold-as-correa-steps-up-hunt-for-cash).

Ahead of the planned sovereign bond issue, his government has also been mending ties with the IMF, which is now [carrying out a long-overdue review of the economy](http://www.imf.org/external/np/sec/pr/2014/pr14248.htm)and finances under its Article IV consultations.

“We have worked on having better credit ratings and other things in order to be able to open this financing source now,” says an economist with the Ecuadorean government.

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