

Tuesday, May 1st 2018

Dear Mustafa,

It's lunchtime and I am sitting under an air-con unit that is struggling to deal with the afternoon heat of Karachi, yet I can hear the pat pat of a game of tennis. I thought it was only mad dogs and englishmen...

The question that I am most frequently asked whenever I am here is about London and how things are going post the Brexit vote. The answer is a bit of a non-event - things are bobbing along fine - but then again a human being can survive perfectly well on one kidney, even in this heat.

But reading in between the lines of your last postcard it is clearly not Brexit that we should be concerned with regarding London - rather it is the technical issue of replacing of LIBOR (the London Interbank Overnight Rate) with a secured financing rate, which in the USA is called the SOFR (Secured Overnight Financing Rate).

LIBOR is the unsecured lending rate upon which all of global credit is currently priced. In this way the city of London stands at the head of global credit creation with \$1 trillion placed using LIBOR every night. This is a big deal for London; we are the world's clearinghouse for credit.

The new secured rate, which will use government bonds as the collateral on which to lend, takes the global lending rate and turns it into a local one. And now every financial centre

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will have its own secured rate. The US rate = SOFR; the European rate = EONIA, which sounds like a lost city of Atlantis. The Swiss rate = Saron, and is only a 'u' away from being in Tolkein's middle Earth, echoing Swiss geography.

The UK...what have we called ours? The Sterling Overnight Index Average - SONIA. Sonia, for those who may not know, was also the UK's entry into the Eurovision song contest in 1993 with the song 'Better the Devil you Know'. We came second that year, which was a pretty good result. I would also venture that "Better the Devil you Know" would have been a considerably better campaign slogan for the remain campaign in the Brexit referendum!

As the Karachi heat works me over, I cannot help but lament London's looming demoted position - from the fire hydrant of global credit via LIBOR to the dribbling hose of the local credit via SONIA. As over the next few years when this LIBOR-to-SONIA transition takes place, London will not only be operating with one kidney but also one lung. When we need our best political and banking leaders it seems that they might also be out playing tennis.

See you on my return - Chris