A founding father of the Chicago centre and a comparative newcomer in London talk to William Hall about Liffe

LEO MELAMED

Development of a good floor crowd is needed

LEO MELAMED, one of the founding fathers of the world's financial futures industry, remembers the day, 10 years ago, when he went to the Bank of England for lunch. Melamed and some of his boys from Chicago were travelling round Europe trying to drum up support for the Chicago Mercantile Exchange's (CME) new-fangled project—the International Monetary Market (IMM).

"They felt we were stark raving mad, but they did not let it show" recalls Mr Melamed. At the end of lunch, a senior official of the Bank of England wished Mr Melamed and his project luck and asked politely whether there was anything the bank could do to help. "You could float sterling," quipped Mr Melamed, and there was a stony silence.

A couple of days later, sterling was floated and the era of increasing instability of, first, currencies, and later interest rates, was born. The IMM could not have hoped for a greater stroke of luck.

Mr Melamed is the first to acknowledge the help that that stroke of fate played in the IMM's early success. However, its emergence as the world's biggest financial futures market is in no small measure due to his own tireless efforts to promote the idea of financial futures around the world.

Trader at heart

Aside from founding the IMM and holding the position of special counsel to the board of the CME, Leo Melamed is still a trader at heart, and even when he is not on the floor of the CME "I am still trading somewhere," he says. Consequently, he is one of the best placed people to judge the strength and weaknesses of the new London financial futures exchange.

"I believe London is the most likely international market to have a good chance of success," he says. Because of the different time zones there has long been a need for a European financial futures market and he also feels there is a need for one in the Far East, where he is putting his money on Singapore, which the IMM is advising.

One of the major strengths of the Chicago financial futures markets is the sizeable number of wealthy individuals who speculate on price movements and provide the market with liquidity. Mr Melamed is adamant, however, that Chicago does not have a monopoly on these individuals.

He thinks London will attract similar people, who want to take advantage of price movements for their personal accounts, from Continental Europe and the Middle East, as well as the UK.

His firm, Dellsher Investment Co, has bought a membership on the London exchange and he is confident that he will use the London market when Chicago is closed.

The early years of the IMM were not always easy. The currency contracts took longer to take hold than the gold and interest rates contracts. Mr Melamed believes that London can learn a lot from the IMM's early experience.

"One has to develop a very, very strong and able floor trader mentality and crowd, because liquidity in a market is very dependent on the locals who do not necessarily take long-term positions but do play an active role during the course of a day, buying and selling."

Mr Melamed argues that the development of a good "floor crowd" is most important for the success of any market.

The other piece of advice he offers the London market is not to expect an early success. "It takes a great deal of time. Education is not an easy thing," he says.

Leo Melamed, special counsel to the CME board

He believes that it could take five years before the market really proves itself and emphasises that the participants must be determined to support the market over the long term if it is to succeed.

Such advice might seem self evident but the track record to date of other U.S. financial futures markets, which have tried to challenge the IMM, show that they have a lot of validity. The New York Futures Exchange (NYFE), despite several natural advantages and the backing of America's biggest stock exchange, has failed to make much impact.

At the end of the day the success of a market depends very much on the skill and commitment of the traders. As one New York dealer commented, "if we had had Leo Melamed to develop our futures market it would have beat the pants off Chicago."