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## Chicago babe hits the big time

LEO MELAMED, one of the founding fathers of financial futures, waited a long time for his brain child to gain acceptance and respectability in the world of finance and investment.

In 1972 Mr Melamed, then the chairman of the Chicago Mercantile Exchange, introduced the first financial hedging instrument, currency futures.

Mr Melamed's currency contract was not an instant success. Plagued by a reputation of being only a few steps removed from a bucket shop, the Chicago Merc had a hard time convincing investors that financial futures were not simply speculative tools, but appropriate hedging instruments that could help to minimise portfolio risks associated with currency and interest rate fluctuations.

Today the Chicago Merc's currency futures market is used by nearly every large commercial bank in the world and the financial futures industry as a whole has become bigger and more important than the market it was patterned after—commodities and agriculture.

But even with that initial success, the Chicago Mercantile Exchange faces competition today, from the Chicago Board

### THE AMERICAN INTERVIEW

of Trade and from the smaller futures exchange in New York and Philadelphia.

That competition has forced the Chicago Merc, which is second in size to the Chicago Board of Trade, to expand aggressively into new product lines. Some of these, such as the energy contracts and the Merc's gold futures, were notable flops.

But, undaunted by those recent failures, in January the Exchange introduced new currency options in German marks, British pounds, Swiss francs and three-month Eurodollar futures. By all accounts, those currency options are doing well.

Over 30 p.c. of the Merc's business comes from Europe,

and the Exchange is still courting overseas customers. Within six months, the Merc hopes to have received United States Government approval for a European currency unit contract.

"There is a great deal of interest now in Europe for an ECU contract," said Mr Melamed, who is now chairman of Dellsher Investment Corporation, and a special consultant to the Chicago Merc. "All our analysis shows that, although the market is an embryo right now, it is growing, and very quickly, so that many payments in the European community will be made by ECUs. As a result, we are going to offer the world a futures market in ECUs as soon as we get approval. We are certainly going to fly with it."

Last September the Merc pioneered the first step towards a 24-hour trading market. When it joined forces with the Singapore International Monetary exchange. Under a mutual offset agreement, investors can open positions in British pounds in Chicago and 12 hours later close out in Singapore.

Although critics of the arrangement say it has not yet been tested because volume has remained fairly low, Mr Melamed defends the link's record and points out that the London Exchange recently joined partnerships with the Philadelphia Board of Trade in a similar arrangement.

"We have had no fallout," he said. "So far the mutual offset system has worked as smooth as silk. The money flows, the financial safeguards are in place and the whole operation has been tested by the fact that there has been no problem. Singapore holds the largest Eurodollar book in South East Asia, so there is an underlying cash market there. We knew that our Eurodollar futures would do well and they have. We're up to 2,000 contracts a day, and most of that is Eurodollars."

"The system has become

exemplary for anyone who wants to get closer to a 24-hour trading clock, which obviously the London community is interested in, the Toronto community is interested in, and the New York community is interested in."

Mr Melamed believes the sceptics who insist the Merc-Simex link will not work if the trading volume expands are wrong.

"Two thousand contracts a day is not spectacular but it is very respectable for a market that was only started in September," he said.

"I've always said that you shouldn't take a gauge of how well or not that market is doing for the first three or four years. You have got to give them that much time, because we are not just talking about a new product, but a new concept. We are talking about a revolutionary application of mutual offset. We are talking about a whole new exchange and a new experiment. It will take time to catch on."

The Chicago Merc's efforts to expand into Asian markets has not stopped with the Simex link. The Exchange recently obtained the right to trade futures on the Nihon Keizai Shibusu Stock Exchange, one of the leading indexes for Japanese stock. Mr Melamed hopes to sub-licence the index to the Singapore Exchange in the near future.

"The wave of the future is the Far East," he says "In 1972 we were looking towards Europe. We opened offices in London, we held seminars throughout the European community and even the Middle East. We concentrated very heavily on connecting with those money centres in London. We did well."

"Today over 30 p.c. of our business comes from Europe. It took ten years, but it worked. In the next decade, we hope to do the same with Asia."

Lauren Chambliss