

Father of Futures Sees China's Futureⁱⁿ

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Chicago exchange chairman emeritus says market's potential is breathtaking

By REX AGUADO



(Leo Melamed says Chicago is in a strong position to offer China technical expertise for developing its own futures market. He hopes the country will use the CME platform. Picture by David Wong)

The father of financial futures has seen the future and most of it will be happening in China.

Leo Melamed, who helped launch the world's first market for financial instruments at Chicago's International Monetary Market in 1972, believes China is on the verge of creating its own financial futures products as its commodities futures market matures.

Mr Melamed, chairman emeritus of the Chicago Mercantile Exchange (CME), has been busy criss-crossing the Pacific to expand business in China.

Those efforts were rewarded recently with the China Foreign Exchange Trade System and National Interbank Funding Centre (CFETS) plugging into CME's electronic system to allow Chinese financial institutions and investors to trade CME foreign-exchange and interest futures.

Mr Melamed, who led the 1987 launch of CME's Globex - the world's first electronic futures trading system

that will now be opened to CFETS - says China's financial markets are still in their infancy, but the potential was "breathtaking".

"China has no legal framework yet for financial futures. A settlement and clearing system has yet to be established. But Chinese officials have been extremely receptive to ideas about financial futures," he said, adding the country's vast and impressive human capital can accelerate the process. "There are more people with PhDs in China than I've ever seen in my entire life," he said.

Mr Melamed acknowledged that the yuan's revaluation had "not been enough to satisfy my free-market views".

Still, he said China's trade and currency policies "cannot be dictated by senators", alluding to efforts by United States politicians to pressure Beijing into slashing its trade surplus with Washington.

He said CME was in a good position to offer China the technical expertise to develop its own financial futures market.

"CME's technology, our clearing and risk-management systems, are a model for the world. We do it better - we're better than the NYSE if you ask me," he said, referring to the New York Stock Exchange.

"We also have the most diversity, with futures products covering agriculture, interest rates, foreign exchange, equities - even housing and weather derivatives."

Ultimately, Mr Melamed hopes China will use the CME trading platform and products.

The Chicago exchange has already signed agreements with futures and equities markets in Shenzhen, Dalian, Zhengzhou and Shanghai for sharing information and technical expertise to help these mainland exchanges become more familiar with international derivatives market practices, products and regulations.

Mr Melamed said that as China's economy evolved, firms needed to learn the art of risk management as a way of improving market efficiency.

Asked about charges that such market efficiency was often distorted by speculative hedge funds, he said: "I welcome hedge funds because they are essential to the market. In the first place, hedge funds have always been around."