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Officials Bullish About Money Market

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Chicago, Ill. — Chicago — perched in America's heartland, far from historical money markets like London, Zurich and New York — is making a young but vigorous bid to become the major futures money market of the world.

It is already the major center of futures trading in agricultural commodities and some other products, but now the Chicago Mercantile Exchange is quite bullish on its new International Monetary Market.

The exchange, second to the Chicago Board of Trade in commodities futures trading, established the money market May 16.

Since then, Everette B. Harris, president of the CME and IMM, told a group of financial and business news writers, corporate financial executives, bankers and others recently, 93,000 futures contracts worth $13.5 billion have been traded. cnt Money

Wins Quick Recognition

And Leo Melamed, IMM chairman and president of Dellsher Investment Co., Inc., said the money market had won more recognition in six months than the markets for commodities had gained in their first three or four years on the CME.

Harris and Melamed were among the speakers at the International Monetary and Trade Outlook Conference organized by the CME and cosponsored by the US Department of Commerce and Chicago's five leading banks.

It was held in the opening week of the CME's new $6 million building at 444 W. Jackson Blvd.

Chicago is a gutsy town, as Carl Sandburg pridefully let the world know, but it was more than guts that embarked the CME on its ambitious venture into foreign exchange futures.

Strongly encouraged by Prof. Milton Friedman, the University of Chicago economist who is probably the country's foremost monetarist, the CME researched and planned long in advance to establish the money market at a propitious time, Melamed said.

Trigger for Market

That time came after the breakdown in the international monetary system created at Bretton Woods in 1944, followed by the Smithsonian Agreement last December permitting wider fluctuations in official exchange rates.

Official exchange rates apply to the cash or spot money markets and not futures markets. But the cash markets have an effect on bidding in the futures markets, and vice versa.

The rationale of a futures market in currencies is the same as that for trading in commodities futures:

The more speculators participate, the better. They make possible a liquid and continuous market needed by commercial interests to hedge on fluctuations in prices — in one case the price of commodities and in the other the price of money.

It is a symbiotic relationship. The speculator takes the risk but stands to profit. In doing so, he furnishes price insurance for the hedger.

As Friedman put it in a paper for the CME, "The larger the volume of speculative activity. . .the easier it will be for persons involved in foreign trade and investment to hedge at low costs and at market prices that move only gradually and are not significantly affected by even large commercial transactions."

The wider official fluctuations now permitted make futures necessary, the Friedman argument goes, the fluctuations attract speculators and the resulting opportunity for hedging increases foreign trade.

Economists and others beating the drum for futures trading in currencies proclaim that exchange rates fixed in a narrow band of fluctuation did not stabilize exchange rates but that flexibility provided by wider bands did tend to stabilize rates.

Canadian Dollar Cited

Narrower fluctuation limits lead to sharp changes in rates after long resistance against pressures that build up, these economists say, whereas the wider ranges result in smoother, smaller changes.

For that reason, some economists advocate a completely free money market, with no fixed rates of exchange. They cite the Canadian dollar — which has been stable, though it has floated for some time — as evidence of the stabilizing effect of speculation when movement of currency rates is not unduly restricted.

Under Bretton Woods, official exchange rates could fluctuate only 1%, up or down, in the cash markets. Under the Smithsonian Agreement, a 2.25% fluctuation up or down is permitted — or a band of 4.5%. However, between the lowest fluctuation of one currency against the highest range of another, the band is 9%.

Wider Ranges Proposed

And wider ranges are being proposed by some for the new international monetary system the major Western trading nations are trying to develop.

A key to the purely financial role the futures market plays is the fact that less than 1% of the transactions result in actual deliveries of currencies. It is said that in a perfect futures market there there would be no deliveries.

While trading on the CME's

Leo Melamed

International Monetary Market has amounted to billions of dollars in contracts, the actual amount of money traders had to come up with is relatively small.

And trading is much quieter than in the nearby trading pits in commodities futures, where loud turmoil usually reigns.

Seven currencies traded on the IMM: the British pound, Canadian dollar, German mark, Italian lira, Japanese yen, Mexican peso and Swiss franc.

Contracts are bought or sold for fixed amounts for theoretical delivery at a future date. The contracts and approximate value in US dollars are: 50,000 pounds, $130,000; 200,000 Canadian dollars, $201,500; 500,000 marks, $152,500; 50 million lira, $85,000; 25 million yen, $80,000; 1 million pesos, $80,000 and 500,000 Swiss francs, $125,000.

For each contract for British pounds, a buyer has to make a security deposit of $2,500. It is the same for a contract for yens, marks and Swiss francs, $2,000 for a contract for Canadian dollars and lira and $1,500 for a contract for pesos.

If the market moves in favor

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Dutch Give Permits for Offshore Drilling

Dallas, Tex. -AP- Lone Star Gas Co. announced that the Dutch government has awarded two oil and gas exploration concessions to a North Sea consortium in which one of its subsidiaries has 15% interest.

W. C. McCord, president, announced that Lone Star Producing Co. will be operating with the consortium, Holland North Sea N.V., in an area about 150 miles off the Dutch coast.

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of a trader, he can get the profits from his broker at any point without selling his contract.

If the market should later turn against him, he of course would have to pay up the necessary amount.

Advice to Hedgers

For his hedging, the commercial operator uses the futures market. But he buys or sells in the spot market currencies he actually will use.

A good track record for a hedger, according to James Burtle, a vice president and economist for W. R. Grace & Co., is a 2% loss in futures trading, but a company might take a greater loss if it didn't hedge. He emphasized at the conference that a company has to take a lot of things into account and carefully weigh whether hedging is worth the cost.

Some companies might make a profit on the hedging, of course, in addition to that from the commercial operations they hedge to protect.

Several bankers and corporate executives interviewed at the conference indicated they thought that banks were doing a good job of serving clients in hedging operations.

Flexibility Cited

They said, for instance, that a client can pick the specific amount of currency he wishes to trade in, not a fixed amount as on the IMM. And he can pick the delivery date best suited to him in any one month, they said, whereas on the IMM there is one set delivery date, the third Wednesday of the contract month.

They said there was no problem of liquidity in trading through banks. They acknowledged, however, that probably the IMM would provide more opportunity for hedging by smaller companies. They felt that larger firms would generally stick with banks in most cases because of their bank relationships and other bank services.

IMM officials said it would be cheaper for companies to hedge in the futures market because commissions were low. They said that while banks said they did not charge commissions, they charged clients a higher rate for currency than it cost the banks to buy.

In any event, the bankers did not demonstrate any concern about possible competition from the IMM, bank representatives praised the IMM at the conference and several Chicago banks are co-operating with the IMM.