Chicago Tribune
Tuesday, December 21, 1971

C.M.E. to Start Foreign Money Futures Trade

BY GEORGE BEARDSLEY

The Chicago Mercantile Exchange yesterday announced that it will begin trading futures contracts in foreign currency in the early part of next year.

Initial trading in futures of Canadian dollars, Swiss francs, British pounds, and German marks is set for March 1, but many details of the trading have not yet been worked out.

Leo Melamed, Mercantile chairman, made the announcement in a hastily called news conference held in the Merc's boardroom.

He also said that Dr. Milton Friedman, the noted economist from the University of Chicago, has been retained by the exchange to analyze the feasibility of such trading.

Planned For Feburary

Melamed said the exchange has been considering the development of the contract for about a year and had planned development of the contract for about a year and had planned to make the announcement in January after plans for trading were complete.

The decision to move up the announcement was prompted by the disclosure over the weekend that finance ministers of the Group of Ten have agreed to allow currencies to vary farther from their parity value.

These wide bands increase the risk taken by large firms engaged in importing and exporting since contracts are often written months before goods are delivered and paid for.

The futures market in foreign currencies could be used to reduce the risk to facilitate world trade.

Size Not Determined

The exchange hasn't decided on the size of the contracts, tho it was indicated they probably would be about $150,000 to $200,000 and that the margin required to buy or sell a contract would be about 2 per cent.

Friedman said it is clearly in the national interest that, "a saitsfactory futures market [in foreign currency] should develop, whatever it may do so, since that would promote U. S. foreign trade and investment.

"But it is even more in our national interest that it develop here instead of abroad. Its development here will encourage the growth of other financial activities in this country, providing both additional income from exports of services and easing the problem of executing monetary policy."

Cites the Need

Friedman said the expanded bands on exchange rates "create a major need for a broad, widely based, active and resilient futures market." He explained that foreign trade often is conducted on narrow margins where a range of plus or minus 2.25 per cent in exchange rates offers a risk to the trader selling goods for future payment.

Friedman didn't attend the press conference. His remarks were in a preliminary special paper prepared for the exchange.