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Int'l Monetary System Prompts CME To Develop Foreign Currency Trade

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CHICAGO, Dec. 20 — The dramatic changes in the international monetary system have prompted the Chicago Mercantile Exchange to develop a futures market in foreign currency according to Leo Melamed, Chicago Mercantile Exchange Board Chairman.

"This type of futures contract," Mr. Melamed said, "had been under serious consideration by our exchange for over a year, ever since it became obvious that the Bretton Woods System was on the way out. The anticipated monetary developments and Saturday's agreement for wider margin of fluctuation of foreign exchange rates have made it imperative that we proceed with this new market as soon as possible, hopefully early next year," Mr. Melamed said.

He disclosed that Dr. Milton Friedman, the renowned economist and economics professor from the University of Chicago, had been retained by the Chicago Mercantile Exchange to analyze the feasibility and need of such a futures market.

Necessary, Realistic

Mr. Melamed stated that Dr. Friedman's preliminary special paper on this subject fortified the Chicago Mercantile Exchange opinion that a futures foreign currency market was necessary and realistic.

In this paper, Dr. Friedman states that, "it is clearly in our national interest that a satisfactory futures market (in foreign currency) should develop, wherever 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 export of services and easing the problem of executing monetary policy."

Dr. Friedman points out that an expanded band on exchange rates "creates a major need for a broad, widely based, active and resilient futures market." He explains that, "foreign trade is often conducted on narrow margins. A range of plus or minus 2.25 per cent in exchange rates offers a risk to the trader selling goods for future payment that he may receive 4.50 per cent less - or - more - than he might judge from spot rates. This could make a substantial difference in the profitability of a trade. The actual risk may be even greater if he is operating in different currencies."

Dr. Friedman continues to expand on this premise and concludes that, "foreign trade will not be hampered by these risks if, and only if, there is a futures market in which they can be hedged."

U.S. Natural Site

As to the place where such a futures market should develop, Dr. Friedman emphasizes that the "U.S. is a natural place for a futures market because the dollar is almost certain to be the major intervention currency for central banks and the major vehicle currency for international transactions. Exchange rates will almost surely continue to be stated in terms of the dollar."

"In addition," Dr. Friedman asserts, "the U.S. has the largest stock in the world of liquid wealth on which the market can draw for support. It has the legal structure and financial stability that will attract funds from abroad. It has a long tradition of free, open and fair markets."

Mr. Melamed pointed out that although there are presently forward markets in foreign currency in London, Zurich and New York, they do not have the breadth or depth that is needed nor do they have the wide communications apparatus necessary to make the market viable.

"The Chicago Mercantile Exchange," he said, "will provide this market with the facilities, communications, public participation and know how of a major exchange."