Sun-Times
Business news
Page 66 Tuesday, Dec. 21, 1971

Merc here maps futures mart on foreign exchange

By Nick Farina

The Chicago Mercantile Exchange said Monday it will create a futures market in monies.

The exchange earlier this year retained Dr. Milton Friedman, University of Chicago economist, to examine the feasibility and need of a futures market in foreign currency.

Friedman's preliminary paper on the subject was optimistic enough to encourage the exchange to set March 1 as the tentative opening day of trading in at least four major currencies — Canadian dollars, Swiss francs, English pounds and Deutsch marks, according to Leo Melamed, Merc chairman.

Melamed said Friedman believes the International Monetary System's newly-established wider margins for currency fluctuations "creates a major need for a broad, widely based, active and resilient futures market."

Melamed said he is positive that the Merc can create such a broad and active market. The Merc's dollar volume will exceed $30 billion this year, second only to the Chicago Board of Trade.

Currently there are spot and forward markets in international currency in New York, Zurich and London and a small futures market in New York which Melamed said is aimed mainly at speculators. The addition of the Merc's futtures marketplace to the other currency markets "will provide banks and businesses with more flexibility and another alternative in their attempts to protect against changes in foreign currency rates, explained Dr. Mark Powers, the Merc's vice president of research and education.

The contracts are expected to be valued at about $150,000 to $200,000. Margin deposits on most commodities run about 5 per cent and the margin on the Merc's foreign currency futures contracts is not expected to exceed that percentage, according to Powers.

Melamed quoted Friedman as writing that "it is clearly in our national interests 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 aborad. 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."

Friedman's paper noted that unddr the IMF's new foreign exchange rate system, a company selling goods abroad for turure payment may receive 4½ per cent less, or more, than he might judge from spot money rates, and that the risk may be even greater if the company is operating in different countries. Friedman wrote that "foreign trade will not be hampered by these risks if, and only if, there is a futures market in which they may be hedged."