

BUSINESS

NOVEMBER 1988

COMMERCIAL PRINCIPALS

Chicago has thrust aside its seamy past and pushed ahead into becoming an international financial centre. Business leaders are establishing a new image for a city still haunted by the ghost of Al Capone.



Futures father: Leo Melamed put foreign currencies on a level with pork bellies.

LEO MELAMED

Chicago Mercantile Exchange

When Leo Melamed was asked by erstwhile mayor Richard Daley about what the International Monetary Market would do for Chicago in the longer term, he replied drily: "It will move the centre of gravity of finance a

few feet westwards towards Chicago".

More than 15 years after the IMM started as a division of the Chicago Mercantile Exchange, Melamed, now in his mid-fifties, has done just that. The guiding light of the exchange, he has probably contributed more than anyone to Chicago's position as an international financial centre. As the father of

financial futures, Melamed's influence has spread worldwide to an array of institutional investors, who use Chicago's leading currency, interest rate and stock index futures for risk management and hedging purposes.

In 1971 the indefatigable Melamed, then chairman of the CME - an arena for trading agricultural futures contracts - developed

the idea of foreign currency futures as a response to the breakdown of the Bretton Woods consensus. While Professor Milton Friedman was propounding flexible exchange rates at the University of Chicago, a bastion of free market economics, Melamed was busy forming the CME's International Monetary Market.

Spending the early 1970s on visits to European central bankers, Melamed faced entrenched opposition to the idea of foreign currencies trading alongside pork bellies and cattle. Today, 80 per cent of the world's futures trading is in financial contracts, and Chicago holds the lion's share of that market.

Melamed believes Chicago must not grow fat, lazy and complacent, but must stay at the forefront of market innovation. The CME is developing an electronic trading system in conjunction with the UK's Reuters, to extend the exchange's trading hours around the clock and open its markets to the Japanese and European time zones.

At the same time, Chicago has had to defend its role in the aftermath of last October's stock market crash, when the futures market came under fierce criticism.

But in a defiant spirit of optimism, Melamed believes the publicity surrounding the crash has alerted more people to futures markets and their function, so that levels of understanding are now higher.