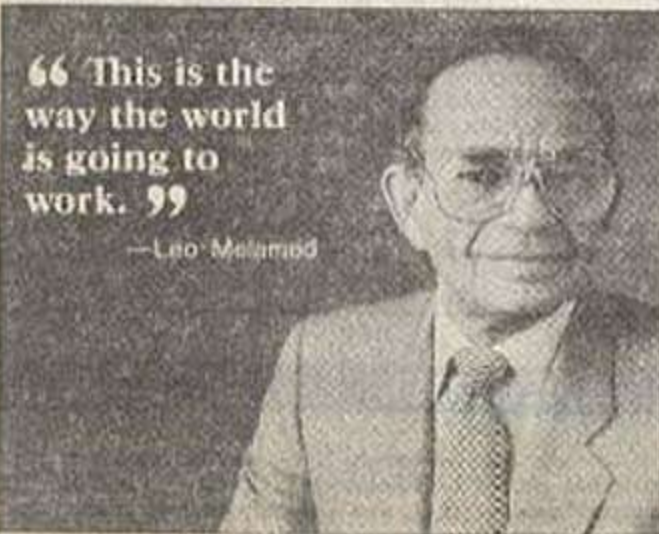


“This is the way the world is going to work.”

—Leo Melamed



Globex Stirs Little Blood

Trading Network Starts This Week; Initial Expectations Low

By Greg Burns

Financial Markets Writer

After limping through years of delays, the Globex electronic trading network is heading for a slow start that's unlikely to live up to the hype that marked its genesis five years ago, trading sources say.

And while talk about the "Dawn of a New Era" lives on among Globex boosters, many potential users say they'll be pleasantly surprised if the after-hours system produces even modest volume during its first years of operation.

Some key trading firms are approaching Thursday's launch of Globex with low expectations.

"Five years ago, it sounded like a sensational idea and it

captured everyone's imagination. We've had some setbacks," says John Conbeeny of Merrill Lynch Futures. "It may not engender the same kind of enthusiasm because of the false starts."

No one expects volume between 6 p.m. and 6 a.m.—when Globex is operating—to come close to the hundreds of thousands of contracts traded during daytime sessions at the Chicago Board of Trade and Chicago Mercantile Exchange.

Since Globex is being launched with four financial products that are only moderately active during regular hours, trading in the early days of even a few thousand contracts would be considered "very successful," says Peter

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Karpen of First Boston Corp., vice chairman of the Futures Industry Association.

By the end of the year, assuming plans go through to list the premier Eurodollar and Treasury bond contracts, 20,000 trades per night on Globex "would be respectable," Karpen says.

Advocates say Globex will start slowly by design. Just 225 terminals will be active early in its rollout, increasing to perhaps 275 by yearend. The idea is to allow users to grow comfortable with the system under tight constraints. Worldwide expansion is to come over the years through the cautious addition of active terminals and established products, including those from other exchanges.

Globex has a few advantages that should help it attract customers overseas. Its hours of operation are designed to appeal to those in other time zones who are now able to trade Chicago contracts only during the night or early morning.

In addition, transactions are backed by the well-capitalized exchange clearing organizations, and positions established on Globex can carry over to the daytime open-outcry trading sessions in the Chicago pits. "Ultimately, it will draw new business," says Globex Chairman Leo Melamed.

But its primary function is to prevent additional loss of market share to foreign exchanges in other time zones offering look-alike alternatives to Chicago products. "If Globex serves the purpose of stopping the erosion of our market share, it's served its purpose," says Melamed.

Some suspect there's very little untapped demand for the products Globex will carry, and to succeed, the system will have to steal away volume from existing markets.

Under one trading executive's analysis, the best Globex can hope for is about 35,000 contracts per night. That's assuming it takes business from the London International Financial Futures Exchange, Singapore International Monetary Exchange and Philadelphia Board of Trade.

On top of that, Globex would need to draw much of the after-hours currency trading that's now done through exchange-for-physicals, and attract a few customers who would otherwise trade in the daytime sessions. Its commodity options business, which will be priced on volatility in an effort to compete with cash markets, also would need to take off.

The best hope for Globex proving its worth is if a big event occurs overseas during hours when the Chicago exchanges are closed and the electronic system is the only way to access their products, suggests Merc Chairman Jack Sandner. For instance, if central bankers in Europe or the Far East make a surprise decision that alters the value of foreign currencies, Globex could get a surge of volume that would instantly establish it as a viable alternative market, Sandner says.

"You don't expect to have a lot of volume except in those times when events call for some action," Sandner says.

Yet if Globex is primarily a safety valve, how will it turn a profit to justify the huge investment of time and effort by the exchanges and money by Reuters Holdings PLC?

Reuters, which pumped an estimated \$70 million into developing the project, is willing to wait. "It's a 20-year contract and we're planning to be in it for 20 years," says company spokesman Robert Crooke. "We're in it for the long term."

And, in the long term, Globex just might be pointing the way to the future of trading. Though exchange leaders never miss an opportunity to express their faith in the open-outcry system of shouted buying and selling in trading pits, some privately concede that computer screens may eventually dominate.

As one Board of Trade executive said recently, the first generation of Globex terminals may not appear to be stiff competition for the vibrant Chicago trading floors. "But what about Globex 2, or Globex 3 or 4?"

To Globex Chairman Melamed, the pace of technological innovation means, "The handwriting is all around us," he says. "This is the way the world is going to work."