

Business

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Futures industry riding high-tech wave, Melamed says

By William B. Crawford Jr.
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SAN FRANCISCO—The man credited with pioneering the world's first financial futures markets told a gathering of money managers here Thursday that the phenomenal rise of financial futures and the fall of communism were caused by technological innovations sweeping the world.

Leo Melamed, chairman emeritus of the Chicago Mercantile Exchange, also said the exponential growth in managed futures would continue into the 21st Century, as increasing numbers of private and public pension fund managers learn to use them as hedging tools and investment vehicles.

While Melamed was enthusiastic about emerging financial trends in the Far East, he cautioned that a relatively stable world economy could become sidetracked by chaos in the Soviet Union, a country that, he said, "has achieved a new meaning for the word bleak."

"It cannot be overemphasized: Telecommunications and technological changes have caused and will continue to cause more globalization, greater interdependen-

ce, instantaneous informational flows, immediate recognition of financial risks and opportunities and intensified competition," said Melamed in a luncheon address to 500 leading futures industry participants, many of them from Pacific Rim countries.

"Telecommunications made it impossible to maintain dictatorial rule; it made it hopeless to hide the unmitigated bankruptcy of state-oriented economics, and, yes, in the final act, it made it futile to resort to a coup d'état of bygone eras.

"The would-be *putschers* [members of the coup] forgot to take out the fax lines," he said.

A forceful spokesman for his industry and well known for taking the global approach to financial and non-financial matters, Melamed made his remarks at a gathering of money managers, brokers, commodity exchange leaders and other industry members from Europe, the U.S. and the Far East.

The three-day conference is being sponsored by Futures Magazine and Sentinel Financial Services Inc., a Chicago firm that manages customer funds not com-

mitted to margin requirements.

Titled the Pacific Rim Futures Conference, the meeting signals the degree to which foreign governments and world money managers have moved away from the notion that managed futures are a Las Vegas-style crapshoot. Increasingly, futures contracts are viewed as legitimate vehicles to diversify investment risk and enhance returns.

"In the last decade, the amount of money invested in managed-futures accounts of all kinds grew from something below \$1 billion to nearly \$20 billion," Melamed noted.

"In the last few years, more and more public and private pension funds are utilizing futures not only as a hedge mechanism but as an asset class. In the last 12 months, moves are afoot in many financial centers, and of particular significance, in the Pacific Rim and Japan, to adopt regulations which will allow and encourage the use of managed futures," he said.

More importantly, perhaps, the meeting is a measure of the relentless march by Japanese banks and stock brokerages into

futures, an industry that until 20 years ago was dominated almost exclusively by Americans at markets like the Merc and the Chicago Board of Trade.

As of July, Japanese institutions had purchased all or a portion of 13 clearing-member firms at the Merc, up from zero about five years ago, and four clearing firms at the CBOT.

Japan has 14 commodity exchanges, compared with 11 in the U.S.

The Nikkei 225 stock-index futures, traded on the Osaka futures exchange, have surpassed the Merc's Standard & Poor's 500 contract as the world's leading stock-index futures contract; and the Japanese government bond contract, modeled after the Board of Trade 30-year Treasury bond contract, is the fourth most heavily traded financial futures contract.

Money managers everywhere are positioning themselves for the torrent of pent-up capital they believe will wash their way as national laws in Japan, Taiwan, Korea and other Far East countries restricting the use of futures are rescinded or modified.