

Futures

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A history rich with character and motion

Although traders know past performance is not indicative of future returns, the industry might take a random walk down memory lane to see how far and fast it has come, and perhaps what's in store for tomorrow.

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At the risk of dating myself, the launch of the International Monetary Market (IMM) of the CME, represents the first of many momentous changes in the futures industry I have witnessed. Indeed, the IMM, created expressly for the purpose of trading instruments of finance, ranks historically as the "Big Bang" of futures markets. It represents the very inception of a transformation that took our industry from contracts designed essentially for agriculture to ones devoted primarily to finance. Clearly, the IMM's launch on May 16, 1972, of foreign currency futures, the first financial futures contracts, hailed by Nobel Laureate Merton H. Miller in 1986, as "the most significant financial innovation of the last 20 years," is as dramatic an evolutionary event in the history of our markets as any ever encountered before or thereafter.

While it took more than 100 years to produce the first revolutionary mutation in futures, the second crucial innovation came only nine years later. In 1981, the IMM's eurodollar contract became the first futures contract to settle by way of payment in cash rather than by physical delivery. "Cash settlement" opened the futures market curtain to instruments and concepts previously unthinkable. It became the gateway to today's index products of every type and continues to offer our industry limitless potential.

As a direct consequence, our markets grew from distant relations of the financial community to a primary adjunct of finance, providing indispensable tools in the management of risk on a global scale. Indeed, the early markets of futures and options acted as the primordial soup that financial engineers were able to apply to computer technology and unleash today's universe of financial derivatives. These instruments became unparalleled agents for the efficient allocation of risk to the benefit of national productivity and international standards of living.

In 1987, the introduction of Globex represented yet another milestone and electrified the futures industry both literally and figuratively. By breaking with the sacred tradition of "open outcry," the CME became the first world exchange to embrace modern technology and accept the concept of electronic trading. Today, electronic screens for futures trading have permeated our industry worldwide and are seemingly the wave of the future.

While we can be proud of these dramatic changes in futures markets, our industry must continue to be ever vigilant to change and to accept innovation as the fundamental essence of our heritage.