

BARRON'S

Vol. LXXXIII No. 42

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October 23, 1995

MAILBAG

Everything's Up-To-Date

To the Editor:

The idea that the Chicago Mercantile Exchange is "still devoted to manual trading through open-outcry auctions on exchange floors," belongs to an era long gone, despite Kopin Tan's column about the so-called invasion of Chicago by the German Eurex exchange ("European Invasion," The Striking Price, Sept. 22). CME did not become this nation's largest futures and options exchange by ignoring the pervasive march of technology and electronic trade.

In 1987, the Chicago Mercantile Exchange was first to introduce the concept of electronic trading for futures. Today, our Globex platform handles 45% of our daily volume. Globex represents an average of 450,000 electronic transactions per day—80% of all transactions done at CME. This is at least 100,000 transactions more than the daily number of electronic transactions at the entire Deutsche Borse, of which Eurex is but one component. While volume defines the total number of contracts traded, transactions represent matched trades. The true capacity of an electronic system is measured by its ability to handle large numbers of matched trades at eye-blinking speed.

CME is also far and away first in notional value of contracts traded with a 2002 value of \$328.6 trillion. On top of that, CME is first in open-interest, with a current total of 25.6 million contracts, comprising a value of \$15.6 trillion. This compares to Eurex's 5.1 million contracts, valued at \$500 billion.

The column reported that Eurex intends to charge but 20 cents per contract in interest rates—as if this were a meaningful threat. Fully 82% of all volume done in the CME interest rate contract, Eurodollars, is at a member rate of 4 cents to 8 cents on the floor, and 14 cents to 18 cents on Globex. (Even when the remaining 18% of non-member transactions are factored into the price, the blended rate in Eurodollars is only 26 cents a contract.) And this for hedging \$1 million worth of notional value compared to Eurex's \$110,000 in notional value. Eurodollars gives you at least seven times as much bang for the buck.

What is critical in this business is the total cost of trading and the largest component is the bid/ask spread. The main reason CME's Eurodollars is the world's most successful futures contract is its

liquidity, providing an unequaled tight spread across a 10-year horizon.

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Kopin Tan replies:

Despite recent growth, electronic trading represents just 45% of the Chicago Mercantile Exchange's total volume. The CME also often describes itself as a marketplace that "brings together buyers and sellers on its trading floors and Globex electronic trading platform." Leo Melamed surely isn't disputing the CME's continued commitment to its manual trading floor.

After a hefty cut this summer, CME prices for Eurodollar futures may well be cheaper for large member firms (Eurex has yet to fix price details). But if the blended rate including non-members is 26 cents a contract, a proposed Eurex price of 20 cents—across the board, regardless of membership—looks like "meaningful" competition. If 82% of CME Eurodollar volume now comes from member firms privy to a fee discount, many non-member public investors might have stayed away because of the costs. The higher fees on the electronic platform further encourage member firms to steer orders to the floor—yet more evidence of CME's partiality toward manual trading.