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Q&A LUNCH WITH...

BY JOSEPH WEBER



THE MERC'S LEO MELAMED ON THE ECONOMY AND POLITICS

Leo Melamed, the 75-year-old *éminence grise* of the Chicago Mercantile Exchange, hasn't liked the looks of the economy since 2005. Even as stocks hit all-time highs last October, inflated housing prices and

easy credit troubled him. Now he expects a long dry spell.

But prospects for CME have never looked better. The exchange, still absorbing the Chicago Board of Trade after last year's \$11.9 billion purchase, may spend \$11 billion more for the New York Mercantile Exchange. Melamed, who started trading at the Merc in the early 1950s, isn't troubled that CME Group's share price slipped from 714 in December to around 520. Growth prospects, especially in South America and Asia are bright, he says.

Over chopped steak at Gene & Georgetti, he reflected on his life's turning points. As a child, he and his parents fled the Nazis in Poland, reaching the U.S. through Siberia and Japan. As chairman at the Merc, he godfathered crucial financial instruments. Against the wishes of floor colleagues, he also pushed electronic trading, which made CME the globe's leading futures bourse.

What do you remember about your childhood flight?

A 7- or 8-year-old doesn't know fear from the adult point of view. When

the Gestapo was in our house and my mother began to cry, that left a lasting impression on me. Usually, it translated to wonderment. I was in places that were unusual and different—I crossed Siberia on the Trans-Siberian railroad.

What are the markets telling us now?

Nearly three years ago, I began to believe that our economy was a house of cards based on loose credit, that it was like a Ponzi scheme, and like any other Ponzi scheme, eventually somebody calls the cops.

What about the future?

This kind of thing doesn't just go away. You can't fix it with a package by the government. Nor can you fix it with low interest rates. Japan went to zero interest rates after their crash in housing and stayed in what was a depression for 13 years. I don't expect we'll get out of it for another year, year and a half, maybe two years.

What do you say to the view that the Merc is too big and too powerful?

If we were some evil empire, I would say it's worrisome, but we're exactly the opposite. We are not using our strength or our bigness to disadvantage any participant.

What about the plan by banks, Citadel, Getco, and Peak6 to set up an alternative exchange?

It's been tried before. We will continue to treat it seriously, but it's not going to be easy for them to overtake us.

What did you find when you reviewed Senator Hillary Clinton's commodity trades in the late 1990s, after questions arose about big gains in her Refco account?

Hillary did nothing improper. There were a lot of improprieties by the brokerage firm in which she held her trades.

Who do you like in the Presidential race?

I really like Hillary. I was very supportive of Barack Obama when he first ran for the Senate; I ran one of the early fundraisers for him. It's just that I have a longer tie with Hillary.

What do you do for fun?

I have been a bridge player my whole adult life. I love the game. And I occasionally recite poetry in Yiddish. **BW**

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