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The Globex after-hours trading system starts today,

The future comes into focus on screen

A new trading system for futures and options launched today could mark a turning point in the shift towards greater automation of financial markets.

Globex, the international after-hours screen trading system, has been five years in development, at an estimated cost of close to \$80m. An exuberant Mr Leo Melamed, head of Globex, is hailing the debut as "the dawn of a new era".

But scepticism about the short-term impact and long-term success of Globex remains rife. There are questions about its ability to handle fast and complex futures markets with the same efficiency as the raucous but effective open-outcry trading pits.

Initially, 140 terminals in Chicago, New York, London and Paris will link up on the system, jointly developed by Reuters and the world's largest futures exchanges, the Chicago Mercantile Exchange and the Chicago Board of Trade.

The system is designed to complement the traditional open-outcry technique for trading futures and options contracts, in which traders yell and hand-signal prices to each other on a trading floor. Globex will provide an order-matching system for these products when trading floors are closed. For example, the 10-year Treasury futures contract listed on the CBOT, one of the first products to be traded on Globex, can now be traded during European trading hours, when the Chicago exchange is closed.

As fund managers become increasingly geared towards a

global investment strategy, demand for liquid markets in key products through various time zones will boost "after-hours" trading, concentrated on Globex – or so the theory runs. However, there are doubts about the level of demand for overnight trading: the concept of globalisation, a buzz-word in the 1980s, has failed to take off as expected, and liquidity remains concentrated in domestic markets.

Reuters, which contributed an estimated \$75m to the development costs of Globex, is banking on the expansion of the system to cover the whole range of financial instruments, including bonds and equities.

However, its investment in Globex should be seen in the context of a research and development budget of around £70m (\$129.5m) a year. Other projects, notably Dealing 2000, Reuters' foreign exchange dealing system

launched earlier this year, have involved far greater investment.

Globex taps a trend towards greater automation – as can be seen by changes in the world's stock markets. "I don't believe anyone in the business thinks that electronic trading isn't coming," says Mr Bud Frazier, a veteran grain trader.

Many brokerages, which earn their money from executing trades, are begrudging towards Globex, arguing that margins on futures executions are already slim because of competition; and most independent floor traders, known as locals, who make their living screaming and jostling in the pits, regard Globex as an encroachment on their territory.

The system has the potential to offer greater efficiency and cost savings. Mr Gary Ginter, managing director of Globex, points out: "A trader at a single screen can access three major markets containing eight leading contracts", creating savings for businesses in the longer term. However, some executives familiar with the system doubt its ability to cope with a heavy flow of business in volatile markets.

Nevertheless, many businesses say the system has sparked interest among clients. "We have to take the system, to stay abreast of our competitors," said one futures executive. Although the initial investment may deter some companies, many conclude that the structure of costs, salaries and commissions are edging them towards greater automation.

Even enthusiasts such as Mr Jack Wing, chief executive officer of Chicago Corp, a large futures



Leo Melamed: new era dawns

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brokerage which has signed on for several Globex terminals, expects trading volume — beyond a burst in the initial days — to be slow. But, in time, says Mr Wing, "we're quite optimistic that Globex will be an important part of the landscape".

Chicago Corp already has a round-the-clock trading desk and the jump to Globex is less strenuous. Other brokers will use Chicago Corp to access Globex rather than invest on their own. "We're committed to 24-hour trading, some are not," said Mr Wing.

For the CME and CBOT, Globex is an opportunity to win back some market share lost in the past decade to budding European exchanges. Mr William O'Connor, chairman of the CBOT, told exchange members last week: "Globex will become a tool that we will use to defend our market share."

Chicago has never lost sight of this purpose in spite of its drive

to draw in other exchanges as partners. Among foreign exchanges, only the Matif of Paris has joined. Negotiations are under way with the Sydney Futures Exchange and the Deutsche Terminbörse in Germany. London's Liffe, which balked at the conditions offered by Globex, continues to express an interest in the system, but is also considering developing its own APT after-hours trading system.

Four New York exchanges, though not the important New York Mercantile Exchange which trades crude oil and other energy products, have agreed in principle to join the system. Nymex is developing its own system, Access.

Initially, Globex is listing only futures and options on currencies and on the 10-year Treasury note. But by the end of the year, with a total of 225 terminals in place, other currency contracts, Eurodollars, 90-day Treasury bills,

Libor, two-year and five-year Treasury notes and 20-year Treasury bonds will join the list. Matif contracts on the Notional French government bond will be added next year, with the CAC-40, the French stock index, Pibor and Ecu bonds to follow.

"The real test will be the important Eurodollar and 30-year T-bond contracts, which are traded in low volume in Europe," said Mr Alex Cooper, director of financial markets at Crédit Lyonnais Rouse.

When Globex was proposed in 1987, it wowed the commodities trading world with its concept of round-the-clock and round-the-world trading, embellished by the vivid imagination of Mr Melamed, a science fiction author.

Five years later, it seems just another interesting addition to the gadgetry of trading, although one that could come into its own when the next world crisis erupts.

World futures contracts

Trading volume: number of futures contracts

| | 1991 (million) | 1990 (million) | Per cent change |
|--|-------------------|-------------------|--------------------|
| Chicago Board of Trade | 111.3 | 120.8 | -7.8 |
| Chicago Mercantile Exchange | 87.1 | 84.8 | 2.7 |
| Liffe, London | 38.6 | 34.2 | 12.8 |
| Matif, Paris | 37.1 | 28.0 | 32.5 |
| New York Mercantile Exchange | 34.3 | 36.3 | -5.5 |
| Osaka Securities Exchange | 33.5 | 22.8 | 46.9 |
| Tokyo Stock Exchange | 16.6 | 21.6 | -23.1 |
| Tokyo International Financial Futures Exchange | 15.1 | 14.4 | 4.8 |
| Sydney Futures Exchange | 12.5 | 11.5 | 8.2 |
| New York Commodity Exchange | 12.5 | 15.5 | -19.3 |
| Deutsche Terminbörse | 5.9 | 0.1 | 5,286.0 |