

# Futures Market Loses Allure As Stocks Soar

## WSJ COMMODITIES

9/25/95 By SUZANNE MCGEE C1  
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Not everyone is celebrating the stock market's remarkable performance this year.

In fact, soaring stock prices on the New York Stock Exchange and the Nasdaq Stock Market are creating a somber mood among inhabitants of futures and options trading pits from London to Chicago and New York. Together with stable interest rates and the "derivatives phobia" sweeping through the ranks of institutional investors, the stock market's strength has helped trigger a slump in interest in exchange-traded futures and options.

"Let's face it, there's an enormous interest in technology stocks right now, and that's left futures markets on the sidelines," says Sanford Grossman, head of the Center for Quantitative Finance at the University of Pennsylvania's Wharton school.

### May Be Long-Lasting

The drop in futures-trading activity began early in the year, although at first many dismissed the falloff as a temporary phenomenon. Now, industry participants are starting to fret that the declines may be longer-lasting and are seeking ways to halt or reverse the trend.

To some extent, the remedy remains out of their reach. Last year, when the Federal Reserve raised interest rates even times, turmoil in the bond market sparked record demand for interest-rate hedges, and trading volume in bond-futures contracts listed on the Chicago Board of Trade, Chicago Mercantile Exchange and others soared to record levels. This year, however, financial markets have remained relatively quiet. The sole excep-

## Futures Trading Declines

U.S. trading volume and percent change on futures markets, in millions of contracts

PRODUCT	JAN.-AUG.		% CHANGE
	1995	1994	
Interest Rate	159.8	170.1	- 6.1%
Agricultural Commodity	41.8	40.5	+ 3.3
Energy Products	31.9	33.9	- 5.8
Foreign Currency Index	16.1	20.8	-22.6
Equity Index	13.6	12.9	+ 5.3
Precious Metal	10.3	11.1	- 7.4
Other Metals	1.8	1.8	- 0.2
Others	0.34	0.30	+15.1
<b>Total</b>	<b>275.6</b>	<b>291.4</b>	<b>- 5.4</b>

Source: Futures Industry Association

tion — the stock market — has posted remarkable gains but without the kind of gyrations that send investors scurrying to make use of futures contracts and other derivatives.

"It's time for us to realize that we're in a cyclical business," says John Damgard, president of the Futures Industry Association. "Now that interest rates are so calm, people figure that it's safe enough to do without the kind of insurance that hedging provides. A return of volatility to these markets will help a lot, eventually."

### Bucking the Downtrend

Indeed, big price swings in agricultural commodity markets — in response to crop diseases, weather problems and scanty supplies — have allowed one segment of the futures-trading business to buck the industry-wide downtrend. As grain prices have hit their highest levels in many years, increased interest in these markets has sent trading volume skyrocketing, with activity in August rising 29% above a year earlier, according to data compiled and released by the FIA.

And as more investors seek a way to

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profit from strong equity markets, activity in stock-index futures and options has proven resilient, and trading in options on individual stocks, such as those listed on the Chicago Board Options Exchange, likely will set a record this year.

The fallout from the derivatives debacles of the past two years, ranging from large losses on custom-designed products by large U.S. firms to the bankruptcy filing by California's Orange County and the collapse of Barings PLC, continues to damp trading volume on exchanges.

"Derivatives phobia basically killed off the structured notes market, and so dealer hedging related to that market has died," says Peter Karpen, managing director at John W. Henry & Co., a Westport, Conn., money-management firm. That has helped depress trading volume in products such as the CBOT's 30-year bond futures and the CME's Eurodollar for much of the year.

Trading in exchange-listed currency futures and options has suffered one of the biggest hits. According to the FIA, trading in currency products has slumped 22.6% so far this year, causing anxiety among officials at the CME, where many of these contracts trade.

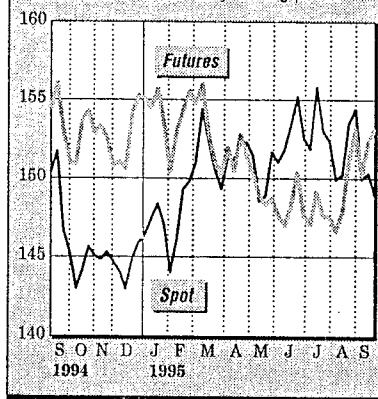
### 'Cause for Concern'

"What's happening in the currency markets gives us cause for concern," says Jack Sandner, chairman of the CME. "The big problem is that there is an alternate market, the bank market, that is bigger, with more liquidity and that is more cost effective."

Mr. Sandner believes that the CME's

## Commodity Prices

Dow Jones indexes; weekly closing prices



Friday, September 22, 1995.

	Close	Net Chg.	Yr. Ago
Dow Jones Futures .....	153.22	- 1.53	156.14
Dow Jones Spot .....	148.96	- 2.39	151.73
Reuter Unified Kingdom .....	2127.6	+ 6.5	2126.2
K R-C R B Futures* .....	242.61	- 2.47	232.73

\*Division of Knight-Ridder.

new large-order execution program, together with other initiatives, may help address this. The initiative allows large traders to complete a big transaction at a single price, as they could do in the over-the-counter bank currency markets, rather than having to break the purchase or sale into smaller parts and execute them at a range of prices.

In addition, exchange officials say they are mulling listing a range of other new currency products, including futures and options on the Italian lira, Spanish peseta, Swedish kroner, Russian ruble and a range of Latin American and Southeast Asian

currencies. Also on the drawing board is a proposal to expand the number of Eurodollar contracts, allowing investors to trade monthly, rather than quarterly, contracts.

But exchanges already are beginning to feel the impact of the drop in volume. Officials at exchanges in Chicago and New York say there has been a small, but noticeable, reduction in the number of runners and other support staff on the trading floor. And a decline in the cost of buying a seat on some exchanges also is falling, a sign would-be traders don't expect a rapid rebound in trading activity.

At the CME, for instance, a year ago a seat giving a member trading rights to all exchange products sold for a whopping \$925,000. In late August of this year, a similar seat sold for \$750,000. A week later, Refco Inc. sold a CME membership for \$715,000, and potential buyers now are offering to pay only \$670,000. Refco officials didn't return calls seeking comment on their reasons for selling the seat.