

## Moving on?

When the "ultimate commodity," money, began trading at the Chicago Mercantile Exchange (CME) 30 years ago next month, those early currency traders endured some quiet days in a marketplace few outsiders understood. Their pioneering efforts paved the way for CME currency futures' impressive volume gains last year (see table). Possibly more important, however, they opened the door for a new generation of financial products that is still unfolding.

The growth area for currency trading appears to be the electronic marketplaces that have been introduced in the last few years. You don't have to be a financial institution or an international money manager to trade currencies anymore. In the past, currency futures were the only reasonable alternative for those with smaller bankrolls. But futures represent only a tiny speck of the international currency market, where trading of \$1-\$1.5 trillion a day is about 30 times the size of all U.S. stock market trading. The growth of the Internet and the concept of online discount brokerage services in equities has resulted in the establishment of a number of online currency firms in recent years, although there are no volume statistics to compare because ownership of the firms is in private hands.

"We address a niche," says Glenn Stevens, managing director of Gain Capital in New Jersey, one of the older and larger such firms, which combine the price discovery process of the futures pits with a larger liquidity pool, trade an international market 24 hours a day and provide direct access to reduce costs of middlemen. Other benefits currency trading has that Stevens cites: No downtick rule, no trading against specialists at the exchanges, no stoppages due to "pending news" or announcements as in stocks, no gaps in the price flow from the market's being closed, better trending characteristics than most markets, etc.

Gain's minimum account is \$5,000 to trade units of 100,000 — 100,000 dollars, 100,000 euros, etc. — on its own trading platform. Other firms have minimums as low as \$1,000. The firms generally do not charge commissions but make their money as marketmakers on the spread, which competition helps to tighten.

Since the passage of the Commodity Futures Modernization Act in December 2000, online U.S. currency trading firms have had to register as futures commission merchants (FCM). That has led to a consolidation that may take the universe of about 12 trading firms down to six to eight registered FCMs.

### CME CURRENCY VOLUME

	2000	2001	Change
Australian dollar	750,000	833,000	+11.1%
British pound	2,038,000	2,079,000	+ 2.0%
Canadian dollar	2,460,000	2,962,000	+ 2.0%
Euro (futures)	4,267,000	5,898,000	+ 38.2%
Euro (options)	372,000	656,000	+ 76.3%
Japanese yen (futures)	3,965,000	4,553,000	+ 14.8%
Japanese yen (options)	568,000	839,000	+ 47.7%
Mexican peso	1,117,000	1,069,000	- 4.3%
Swiss franc	3,241,000	2,902,000	- 10.5%

Source: Chicago Mercantile Exchange, Futures Industry Association