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SPECIAL POLICY BRIEF 27

Derivatives Exchanges in Emerging Markets New Data from the Futures Industry Association

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The Futures Industry Association (FIA) recently released data on derivatives trading on exchanges around the world. The data covers the first five months of 2005. Most of the following discussion and analysis compares those five months to the same five month period in 2004 or the entire previous year.

In a January Special Policy Brief, the Financial Policy Forum reported that derivatives exchanges in some emerging markets were growing rapidly and had risen into the ranks of the world's 20 largest exchanges. The most recent data shows a more mixed picture for the first five months of 2005. Whereas five of the largest twenty contracts (measured by the numbers of contracts traded) were in emerging market exchanges in 2004, that number dropped to four in the current period. Of special note is the fact that the TIE interbank interest rate future traded on Mexder (*Mercado Mexicano de Derivados*) dropped from 4th to 9th in the ranking.

Trading volume in the TIE contract fell by 21% in the January-May period compared to the same five months in 2004. This occurred despite a worldwide increase of 16% in interest rate futures and options trading on derivatives exchanges. In particular, the Chicago Mercantile Exchange's Eurodollar futures contract volume jumped 52% and that for the option jumped 46%. (In appreciation for this business, the recently demutualized CME should consider issuing a special 'Greenspan Dividend' before his retirement next year.)

The ranking of derivatives exchanges showed similar results. While seven of the top twenty exchanges are in emerging markets, there was some slippage in the Mexican *Mexder* and the Brazilian *Bolsa de Mercadorias and Futuros (BM&F)*, and gains by the Indian *National Stock Exchange (NSE)* and Taiwan's *Taiwan Futures Exchange*.

A noteworthy development at India's NSE is their 26% jump in trading in single stock futures over the same period in 2004. This pushed single stock futures trading in India to 22 million contracts, compared to 1.6 million at OneChicago in the United States. (Apparently the plum that the exchanges extracted from the legislative wrangling over the CFMA pie in 2000 has yet to ripen.)

Meanwhile, single stock options grow apace even while equity indices contracted by 8% worldwide. Growth of 23% was reported in single stock options at Brazil's *Bovespa* exchange. In comparison, trading volume in single stock options at Chicago's CBOE rose 13% while the Pacific Exchange saw a rise of 27%.

While agricultural futures trading declined worldwide through May, China's *Dalian Commodities Exchange* now trades the largest two futures contracts in the world: soybean futures and soymeal futures. The exchange introduced a new corn futures contract this year and the trading volume has already reached seven million.

Overall, the largest gainers in trading volume were exchange rate contracts. Although no foreign exchange contracts were amongst the top twenty contracts – which are dominated by interest rate and equity index contracts – foreign exchange futures and options showed tremendous global growth of 49% through May of 2005. Trading in the CME's euro-dollar futures and option rose 81% and 82%, respectively. The US dollar-peso futures contracts at Argentina's *Mercado a Termino de Rosario* grew by 32%, and at Brazil's BM&F the dollar-real futures rose 31%. (Mexico's *Mexder* dollar-peso contract, which was introduced just last year, traded 1.2 million contracts in the first five months of this year.)



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Articles containing the data used to prepare this Brief is available from the Futures Industry Association at:

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