

COMMODITY EXCHANGES AROUND THE WORLD

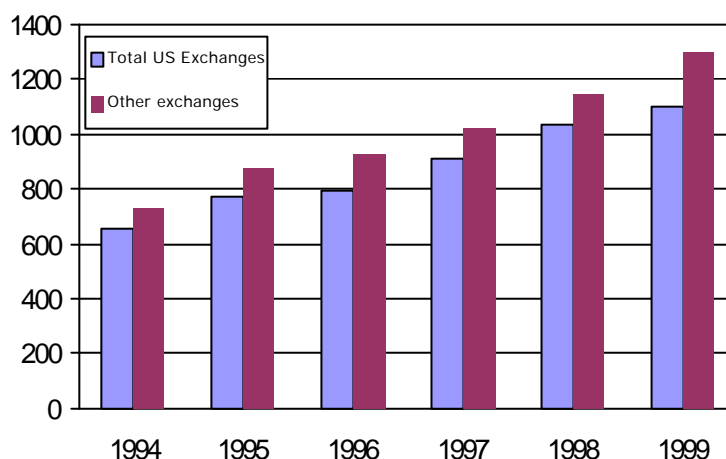
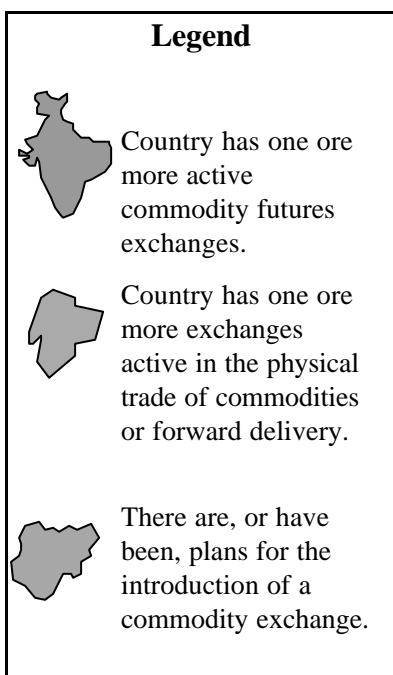
By the UNCTAD Secretariat *

Virtually all of the futures exchanges in the **United States** date from the late nineteenth or early twentieth century. They all started as commodity exchanges, but since the early 1980s trade in financial futures has become more and more important for most of them. Until 1998, the Chicago Board of Trade used to be



the world's largest futures exchange, but is now the second-largest place with a volume of 255 million contracts in 1999 (11 per cent of total world volume). The Chicago Mercantile Exchange, the world's fourth-largest, accounted for about 8.5 per cent of world volume, while the New York Mercantile Exchange (former NYMEX and COMEX), the world's eighth-largest, accounted for more than 4 per cent. Among the large exchanges, NYMEX is the only one trading solely commodities, and is the world's largest commodity exchange.

Two years ago, the CSCE, NYSE and NYCE merged to form the New York Board of Trade which was in 1999 the world's twentieth-largest exchange. Up to 1993, the United States exchanges used to account for the major part of world futures and options trade. As the table below shows, it is not anymore the case today.



Volume of trade of United States and other exchanges

The exchanges in **Canada**, also long-established, are of fairly minor importance; the largest exchange trading commodities, the Winnipeg Commodity Exchange, was the world's 41st-largest futures and options exchange in 1999, accounting for 0.10 per cent of world market trade. Several studies have been carried out since 1990 on the

possible introduction of a commodity futures exchange in **Mexico**; initiatives to introduce one have been taken in at least three different states. However, despite the detailed feasibility studies, no organized commodity futures exchange has yet been created.

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Most of the commodity exchanges in Central and South America trade physical commodities, for immediate or forward delivery. Nevertheless, the region is also home to one of the world's oldest commodity futures exchanges, the Bolsa de Cereales in **Argentina**, which dates from 1907 (three other commodity exchanges are also active in the country). The region's main commodity exchange is the Bolsa de Mercadorias & Futuros, in **Brazil**. Although the exchange was only created in 1985, it was the 11th-largest exchange in 1999, with 56 million futures and options contracts traded (in spite of the fact that commodity futures and options only accounted for less than one tenth of its turnover). However, a year before, in 1998, BM& F was the 9th largest exchange with a volume traded of 87 million. There are also many other commodity exchanges operating in Brazil, spread throughout the country. They trade largely in commodities for immediate or forward delivery, but through an electronic

network (which links most of the country's exchanges) they also make it possible to trade in futures contracts.

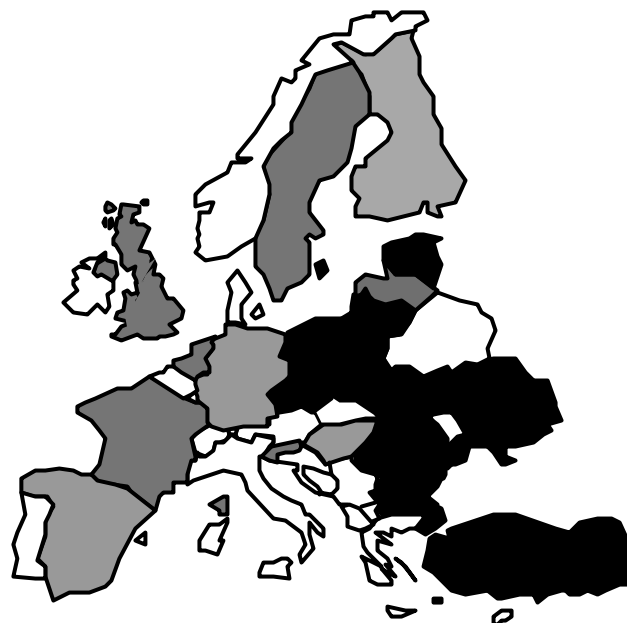
The exchanges in **El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Colombia, Ecuador, Peru** and **Bolivia** were mostly created in response to the liberalisation of domestic trade, as a mechanism for the organisation of domestic commodity trade flows. The oldest of these, in Colombia, dates from 1973, and the Ecuador dates exchange from 1986, but the others have all been introduced since 1992. Most of the products traded are agricultural (with some processed products traded in a few countries), but the Government of Colombia is looking at the possibility of introducing a commodity exchange for emeralds. The trading possibilities offered by the exchanges vary widely. Most provide a forum for the trade in physical commodities, but some also enable forward trading; in Colombia, the exchange also trades the Accredited part of warehouse receipts (in Latin America, warehouse receipts consist of two parts, one which gives rights to the commodities, and one which is used for credit purposes).

The creation of a commodity futures exchange was proposed by a major private sector group in **Chile** in the late 1980s; the proposed exchange would trade in domestic food-grains and in fishmeal, but plans for it have not yet been finalised. In **Paraguay**, the Government considered the possibilities for the introduction of an exchange. Progress towards the introduction of an exchange is quite advanced in the **Dominican Republic**; it is planned to introduce warehouse receipt trading for beans and coffee. In **Venezuela**, a group already active in trading warehouse receipts over-the-counter is also working on the creation of an exchange.

Europe is home to both some of the world's oldest and some of the world's newest commodity exchanges. Two of the three commodity exchanges in the **United Kingdom**, the London International Financial Futures Exchange, Liffe (or rather, the commodities department of the Liffe, which was an independent exchange until a merger in 1996) and the London Metal Exchange can trace their history back to the nineteenth century.

The third, the International Petroleum Exchange, was formed in response to the change in oil marketing and pricing practices of the late 1970s.

Exchanges in **France** and **the Netherlands**, although of less importance for commodities than those in the United Kingdom exchanges, also have long histories. In terms of size, Eurex is now the world's largest futures exchange with a volume of



379 million contracts in 1999 (16 per cent of total world volume). Only in Frankfurt, (**Germany**) 340 million contracts were traded in 1999 (14 per cent of total world volume); Paris-Bourse (former Matif and Monep) became the fifth-largest futures exchange accounting in 1999, for roughly 8 per-cent of world market futures and options, with a volume of 187 millions of contracts. The Liffe is the world's seventh-largest futures exchange (with, in 1999, 5 per-cent of world market futures and options volume). The London Metals Exchange accounted for some 2.5 per cent of world turnover. There are also commodity exchanges of a more traditional kind, oriented towards physical trade, in these countries, notably the French Rungis market for trade in fruit and vegetables, and the Dutch flower auction in Aalsmeer. Above all, the new trend in Europe is electronic trading. Eurex was directly introduced electronically (that is, unlike the traditional exchanges, there was no open-outcry floor; rather, buying and selling orders have been directly executed through a computer system), while Paris-Bourse and more recently Liffe moved from open-outcry to electronic. Among the long established futures market, LME is the only one keeping its open-outcry floor without any plan to adopt "on-line" structure. In **Sweden** the financial contracts traded on electronic exchanges were supplemented in 1997 by one for paper pulp (under the OM).

Another country where exchanges have existed for a long time is **Turkey**. Around 20 of them have been engaged in active commodity trade (others are called exchanges, but in fact, only act as centres for the registration of commodity trade transactions); the oldest, in Izmir, traces its origin back to 1891. These exchanges act as physical trading centers, to which a range of commodities are brought for inspection and immediate sale. Some of these exchanges have been looking at the possibility of introducing more sophisticated forms of trade, based on warehouse receipts and even futures contracts (the Izmir Cotton Exchange has now an active futures contract on cotton).

In **Slovenia**, another new electronic exchange, the Exchange of Ljubljana started trading in 1995; it offers a range of currency futures contracts, and two grain futures contracts. While trade in all of these emerging futures exchanges and new futures contracts has been quite limited so far, in **Hungary**, the Budapest Commodity Exchange, created in 1990 (as an open-outcry exchange), has been quite successful, ranking in 1999 as the world's 44th-largest commodity exchange, while the Budapest Stock Exchange was the world's largest 43rd.



Other commodity exchanges, not trading futures contracts, have been created since 1990 in **Romania, Bulgaria, Ukraine, Lithuania and Estonia**. Most of them concentrate on organising trade for immediate physical delivery. However, in some markets, futures contracts are traded such as, in the Romanian Commodities Exchange, opened in 1992 in which was introduced futures contracts on foreign currencies (Euro, dollars, etc.). This market intends also to launch a regional spot market for oil as well as a grains floor. In the **Czech Republic**, there have been plans since 1994 to create a commodity exchange to trade precious and non-precious metals, fuels, minerals, ores, timber, paper products and construction materials - a range of products quite different from that normally introduced in countries with liberalising economies (where exchanges tend to focus on agricultural commodities). In **Poland**, where several commodity exchanges were active in the first half of this century, the reintroduction of exchanges, which would be trading on the basis of warehouse receipts, is under serious consideration. In Kazakhstan there have been plans to introduce an exchange.

At the beginning of this century, there were over a hundred commodity exchanges in **Russia**. The early 1990s saw a spate of introductions of new exchanges - according to one estimate, more than 270 exchanges were created between 1990 and 1993. Several commodity futures contracts have been formulated (the first one, an aluminium contract, was launched by the Moscow Commodity Exchange in late 1992), but trade has not been very active (market users concentrated on stock, currency and interest-rate futures). Several exchanges are reported to have plans to move from physical trading in commodities to futures trading.

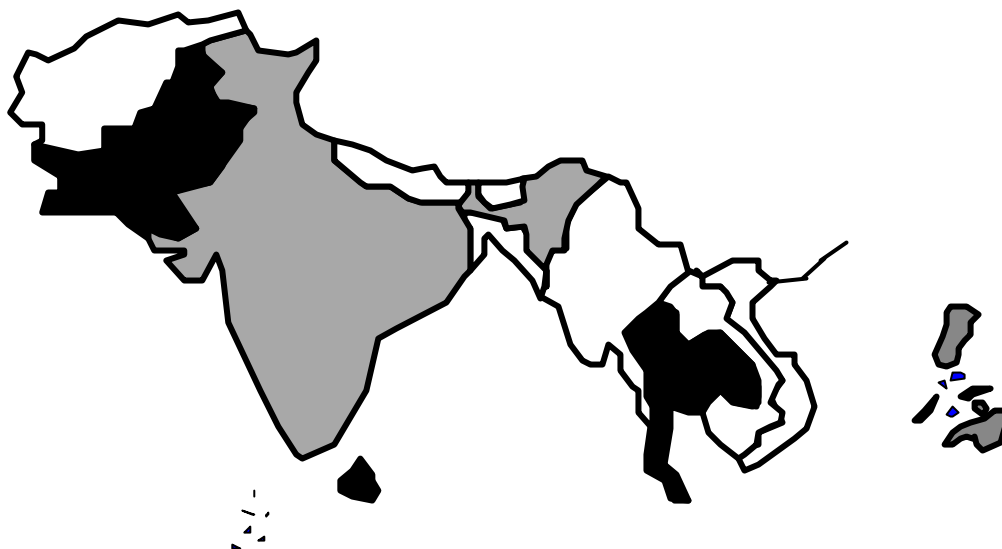
After the decision of the Chinese Government of creating a central market place in 1988, 30 futures exchanges emerged in late 1993, while 50 wholesale markets were keen to offer futures trading possibilities. There were at least three futures markets in base metals, one in gold, three in fuels and petrochemicals, one rubber market and seven cereals market. The largest of these markets was the Shanghai Metals Exchange which, had become, by late 1993, the world's third largest futures exchange in terms of contract turnover. In late 1994, a drastic decision was taken: more than half of China's exchanges were closed down or reverted to being wholesale markets, while only 15 restructured exchanges received formal government approval. At the beginning of 1999, the China Securities Regulatory Committee was considering the possibility of merging Shanghai's three futures exchanges into one. The merger was part of a nationwide consolidation process. **China** has now consolidated 14 futures markets into three exchanges located, respectively, in Shanghai, Zhengzhou and Dalian. The new exchange in Shanghai, called the Shanghai Futures Exchange, trade forward copper, aluminum and rubber transactions and was in 1999 the world's 36th-largest exchange. In 1999, the Korea Stock Exchange became the world's 9th-largest futures market with a share of 4 per-cent of world volume and the Hong Kong Futures Exchange was the world's 31st-largest futures exchange.

Futures exchanges in **Japan** have also gone through a process of consolidation since 1993, and only 10 remained in 1999 (down from 17 just five years earlier). The largest are the Tokyo Commodity Exchange and the Tokyo Grain Exchange, both respectively the 15th and 22nd largest exchange accounting for almost 2 and 1 per cent of world futures and options turnover.

The creation of commodity exchanges has been considered in **the Islamic Republic of Iran and Kyrgyzstan**; these would be physical exchanges, to meet the needs of farmers, commodity traders and processors in the context of agricultural liberalisation. In **Taiwan Province of China** and the **Republic of Korea**, futures exchanges have now been launched.

Commodity futures markets have a long history in **India**. The first organised futures market, for various types of cotton appeared in 1921. In the 1940s, trading in forward and futures contracts as well as options, was either outlawed or made impossible through price controls. This was the situation until 1952, when the Government

passed the Forward Contracts Regulation Act, which to this date controls all transferable forward contracts and futures. During the 1960s, the Indian Government either banned or suspended

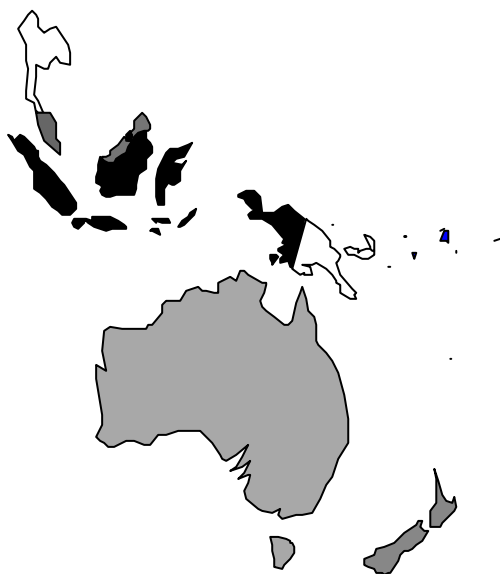


futures trading in several commodities. The Government policy softened in the late 1970s and recommendations to revive futures trading in a wide range of commodities was made. With the full convertibility of the rupee, the ongoing process of economic liberalisation and the Indian economy's opening to the world market, the role of futures markets in India is being reconsidered. Most of contracts being traded are unique in the world. Although some are clearly domestic oriented, others (such as raw jute, pepper, and oilseeds) have the potential to become of regional or even international importance. The first new contract allowed was an international pepper futures contract in Cochin officially launched in 1997.

In the **Philippines**, the Manila International Futures Exchange was active from 1985 to 1996, but was then closed down by government regulators.

Private-sector groups in **Pakistan** have called for the re-establishment of a cotton exchange; a cotton

exchange functioned in Karachi until the 1930s. In **Thailand**, a project to start a commodity futures exchange in rice, rubber and a number of other commodities has been the subject of debate, including in the country's Parliament, since the early 1980s, but little progress has been made so far. In **Sri Lanka**, the Government has been looking at the possibilities of an exchange for both domestically traded and export commodities, including tea.



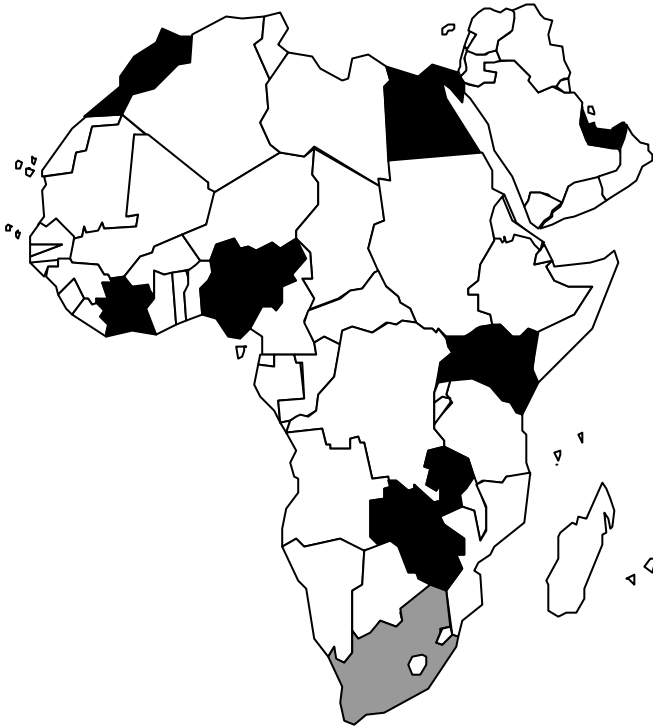
Australia, New Zealand, Malaysia and Singapore all have active commodity futures exchanges. The Sydney futures exchange was the world's 18th-largest in 1999 with a volume of roughly 30 million contracts. Singapore is home to two exchanges, with the Singapore International Monetary Exchange (which trades fuels and gold alongside a range of financial futures) accounting for 1 per cent of world market

futures and options volume (making it the world's 19th-largest exchange in 1999). The New Zealand Futures Exchange and the Kuala Lumpur Commodity Exchange were ranked 50 and 52, respectively, in



the 1999 ranking of world futures exchanges by trading volume.

In **Indonesia**, the introduction of a commodity exchange has been under discussion since the early 1980s and the institutional framework has been gradually developed in this respect to pave the way for an emerging market. A new project to launch the Jakarta Commodity Exchange has now emerged in which different commodities to be traded have been under discussion (cocoa, plywood, paper, rice, rubber, sugar soybeans and cotton).



In the Middle East, a proposed exchange in the **United Arab Emirates** would be internationally oriented. The launch of a futures market on aluminium in Abu Dhabi -the Saadiyat Financial Futures and Options Exchange – aluminium f.o.b. Jebel Ali - is now under serious consideration

In Africa, the only active commodity futures exchange is in **South Africa**. The South African Futures Exchange (SAFEX) informally launched in 1987 evolved as a leading emerging market. While for a long time the South African Futures Exchange only traded financial futures and gold futures, the creation of the Agricultural Markets Division led to the introduction of a range of agricultural futures contracts for commodities of which trade was liberalised, namely, white and yellow maize, bread milling wheat and sunflower seeds. Options were launched in 1998 and in 1999, the exchange traded roughly 19 million

futures and option contracts, making it the world's 21st largest exchange. Maize contracts are also traded on new exchanges in **Zambia** and **Zimbabwe**, and the Zimbabwe Agricultural Commodity Exchange offers wheat contracts, but these are contracts for immediate or forward delivery rather than futures contracts.

In **Kenya**, an agricultural commodity exchange was established in 1997, as a forum for trade in spot and forward contracts for a range of commodities. A number of other countries are looking into the possibility of introducing commodity exchanges. In **Côte d'Ivoire**, for instance, the introduction of a commodity exchange trading in robusta coffee and cocoa was discussed during the liberalisation process but not yet crystallised. The liberalisation of external marketing of cocoa in **Ghana** might also lead to the emergence of a market but the form that this exchange would take is not clear and considering the predominance of the Liffé in futures trade in cocoa, it is likely that contracts for physical delivery and contracts based on warehouse receipts would be traded, rather than futures contracts. In **Egypt**, industry groups wish to revive the Alexandria Cotton Exchange, which was abolished by the Government in the 1950s. Exchange initiatives in **Nigeria** and **Uganda** are focusing on both domestically traded and exported commodities, while in **Morocco**, private-sector groups have been looking at how domestic trade liberalisation would affect the introduction of contracts traded on a commodity exchange.