

# History of the Chicago Mercantile Exchange

by

Everette B. Harris

President — Chicago Mercantile Exchange

While commodity futures trading is a relatively modern development, mankind has always made attempts to benefit in the future from production in the present. As Time Magazine remarked, referring to the Old Testament's story of Joseph, "After, all, when the seven fat years ended in Egypt and the seven lean years began, wasn't Joseph the only man with grain stacked in his barns?"

In modern history, geography had much to do with Chicago becoming a world center of commodity trading. The Midwest's productive capacities, the processing facilities in Chicago and nearby cities, and the transportation network of roads, rivers, canals and the lakes all combined to create a grain exchange, more than 120 years ago.

## PRODUCTION SEASONAL

During the last half of the 19th century, a fast-growing nation was at the mercy of alternating periods of scarcity and plenty. Cold storage facilities were primitive, markets were disorganized, and major production was seasonal.

## FUTURES TRADING IN LIVESTOCK

In the case of butter, for example, a Chicago Product Exchange was formed in 1874 which established grades and rules of trading. Kegs of butter were individually smelled and tasted on the spot, and a price was agreed on. Some butter produced in the warm months was heavily salted and stored in basements for later use. The Chicago Butter and Egg Board was organized in 1898, and by 1915 the Board had developed 28 rules governing butter grading.

### C.M.E. FOUNDED

Chicago Mercantile Exchange records show that after World War I, the industry leaders banded together to form an organization to permit public participation under carefully supervised commodity trading regulations. In 1919, early planners including S. E. Davis, O. W. Olson, W. S. Moore and C. E. McNeil established the Chicago Mercantile Exchange. The initial day of trading was on December 1. During the first 45-minute session, 3 cars were traded; a total of 8 cars were traded during that first week.

Early trading was in an old building at LaSalle and Lake streets. After 5 years, the Exchange governors decided that North Franklin Street would be a valuable property in the years ahead, and property was secured at the northwest corner of Franklin and Washington.

On September 16, 1926, Exchange officials quickly vetoed architects' proposals that the new building's elevator shafts be located in the central part of the trading floor. On November 2, members were told "it has definitely been decided that the new home of the Chicago Mercantile Exchange at Washington and Franklin will be 17 stories high. The first nine floors will be built with a steel frame and the remaining eight floors of concrete." The idea of using concrete was to limit construction costs. Those wishing to make the entire building concrete were defeated because heavy pillars would have been required throughout the trading floor in order to support the building's weight.

### SOMETHING NEW!

While members traded butter, eggs, and ideas in their old stand, construction got under way when \$2,600,000 in bonds were

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subscribed. The plans specified that, "The Exchange trading floor should occupy the second floor. It was to be reached by a marble stairway and six elevators. The area provided was approximately 75 by 125 feet; a high ceiling and no pillars or posts intervened to obstruct vision of the entire trading floor. The third floor included a studio for radio; it was anticipated that we would do our own broadcasting from the building."

Plans for the trading floor anticipated a form of pit trading similar to that being used on the Chicago Board of Trade. The blackboard system was not entirely satisfactory because it was difficult to install boards which would expedite trade during hectic periods when trades assumed tidal proportions. Shortly after construction ended, the new building was dedicated with an impressive ceremony and banquet held on April 25, 1928, at which humorist Will Rogers was an honored guest and speaker.

For a number of years, business was conducted in a relatively unhurried fashion. Most desks had a single phone; clerks and runners were almost unheard of, and members gathered in front of blackboards on standards. The world grew more complex, and so did life at the Chicago Mercantile Exchange. Post-depression years saw the Exchange building sold to its present owners, the Material Service Corporation; later to Henry Crown & Co. The trading floor was "turned around" to face double-decked boards covering the East wall and much of the South and North walls. A new ceiling with built-in lighting and air conditioning was formed to cover the ornate ceiling and chandeliers originally installed. In the early 1960's, new desks and chairs were provided, and a new floor encased the complicated wiring necessary as leads to hundreds of telephones, to time clocks, and to sending and receiving machines.

Prior to World War II, the Chicago Mercantile Exchange was synonymous with butter and eggs, and virtually all futures trading was dormant during the war. Principal butter and egg traders of the roaring twenties began to disappear and were virtually nonexistent in the fabulous forties. Technological changes had transformed the production and distribution of butter and storage eggs from seasonally produced commodities with classical production and price cycles to basically new and different prod-

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ucts in their production, price and distribution patterns. The economic necessity of hedging markets provided by a futures market had greatly diminished. Futures trading in storage butter had almost disappeared and trading in eggs became tenuous.

Partially successful efforts were made by members to modify rules relative to egg futures trading by shifting from refrigerator to shell eggs. That is, trading in fresh eggs began. Trading in storage eggs continued, but at a discount. This discount continually increased from year to year until presently hedgers and speculators are trading very heavily in strictly fresh eggs with storage eggs nondeliverable. Thus, the Exchange tried to keep abreast of changing times in the egg industry. Members are proud that the highly efficient, mechanized, and modernized egg industry uses the updated egg futures contract as a helpful pricing tool. It is used by producers and handlers both for long and short hedging, for forward pricing, and for price information.

So much for eggs. It became apparent that members could not continue to subsist economically on eggs alone. Necessity is the mother of invention. Beginning in the early fifties and until the present time, Exchange members have vigorously researched, tested, and promoted many new contracts for futures trading. Most have been agricultural commodities but some non-agricultural commodities were also formulated. Some have succeeded and some have failed, but fear of failure has not impeded progress. The commodities which have fallen by the wayside in futures trading include onions, scrap iron, frozen shrimp, frozen broilers, hides, and apples. Successful markets have been established in frozen pork bellies, Idaho potatoes, live hogs, strictly fresh eggs, and the most exciting current futures — live beef cattle. The Chicago Mercantile Exchange is the second largest and fastest growing market in the world today. For the first time in history, August, 1969, saw the Chicago Mercantile Exchange the leader in volume among the major U. S. Commodity Exchanges.

The following tabulations are from the monthly report by the Association of Commodity Exchange Firms Inc. in New York.

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Table 3

COMMODITY EXCHANGES WITH GREATEST PERCENTAGE OF U.S. VOLUME — BASED ON TRANSACTIONS COMPLETED IN AUGUST, 1969

	Percentage of total transactions	Number of contracts traded in August '69	Number of contracts traded in August '68
1. Chicago Mercantile Exchange	39.1%	337,690	139,956
2. Chicago Board of Trade	38.9%	336,264	416,061
3. N.Y. Coffee & Sugar Exchange	7.0%	60,727	35,961
4. Commodity Exchange, Inc.	5.0%	44,088	45,435
5. N.Y. Cocoa	4.0%	35,570	35,314
6. N.Y. Mercantile Exchange	2.0%	16,115	49,312
Total of other exchanges	4.0%	32,690	70,231
<b>TOTAL</b>	<b>100.0%</b>	<b>863,144</b>	<b>792,270</b>

Table 4

GREATEST INCREASE IN VOLUME OF SPECIFIC COMMODITIES DURING MONTH OF AUGUST (NUMBER OF CONTRACTS) AUGUST, 1969 vs AUGUST, 1968

Commodity & Exchange listed on	1968	1969	Increase
1. Cattle — CME	16,521	123,519	106,998
2. Pork Bellies — CME	103,791	160,632	56,841
3. Fresh Eggs — CME	16,454	45,034	28,580
4. World Sugar — NYC&S	35,235	59,062	23,827
5. Corn — CBOT	111,453	128,881	17,428
6. Broilers — CBOT	507	14,562	14,055
7. Soybean Oil — CBOT	21,976	32,855	10,879
8. Copper — Com. Exchg.	1,005	10,851	9,846
9. Hogs — CME	676	7,256	6,580
10. Steers — CBOT	1,534	5,089	3,555

True, the Chicago Mercantile Exchange has grown, adapted, and changed with the times. But in many ways it has not changed since its founding fathers laid out its goals, purposes, and standards as shown below:

“The proposed business and objects for which said corporation is formed is to make for the benefit of its members daily quotations of market prices on butter, eggs and produce, and to furnish general information to its members regarding the markets for such commodities, and to furnish a convenient place where its members may buy and sell such commodities, and to facilitate the speedy adjustment of business disputes.”

## FUTURES TRADING IN LIVESTOCK

Today, because of the modern promotion methods aggressively used by the Chicago Mercantile Exchange and by its members, we can say "Business is 'show business' but it must be done with integrity." With leadership goes responsibility, and increasingly higher and higher standards have been set and met. Yet, as the French say "the more things change, the more they remain the same."

In 1926, Florence Sherman, secretary at the Exchange, wrote a poem for the "Exchange News" which read in part as follows:

### HOW IT LOOKS AT THE DOOR

One by one, they trickle in,  
Some just quiet, some with din,  
Some with lightly tripping toe,  
Some with faces filled with woe.

And now approaches eleven o'clock,  
The markets cease to roll and rock,  
Hundreds of cars are bought and sold,  
The record of which the world is told.

The bell has rung the close at last,  
The sound of conflict is ebbing fast,  
The settlement price is posted too,  
It cannot suit each one of you.

Now one by one they trickle out,  
Some are sure, some are in doubt,  
Some will gain, and some will pay,  
Ah, well, tomorrow's another day.

And so the story goes in 1969 — the Golden  
Anniversary of the Chicago Mercantile Exchange.