Financial market developments

- *Yield curves flattened in most major government bond markets during the first quarter, reflecting greater investor confidence about inflationary prospects.*

- *The Mexican financial crisis led to a reassessment of emerging-market risk by investors and a greater appreciation of the interdependence of capital markets worldwide.*

- *Recent trends in international issuing continued: in particular, the average maturity of international fixed-rate bonds shortened, MTN issues and syndicated credits increased, and privatisations continued to favour international equity issues.*

Overview

During the first quarter of 1995, yield curves flattened in most major government debt markets. This reflected reduced investor concern about inflationary pressures, which also led to a sell-off in base metal commodity markets during February. In contrast to the Japanese earthquake and the Barings crisis, which had only transient effects on markets, the Mexican financial crisis led investors to reassess the risk in assets from emerging markets and developed countries with high levels of public debt.

Although there was some strengthening in the US equity market, there was no consistent trend in prices in the major European equity markets during the quarter. The Japanese equity market fell as a result of the strength of the yen against the dollar, because of concerns about its adverse effect on exporters. Equity turnover worldwide was fairly stable, with trading volumes in Tokyo remaining low.

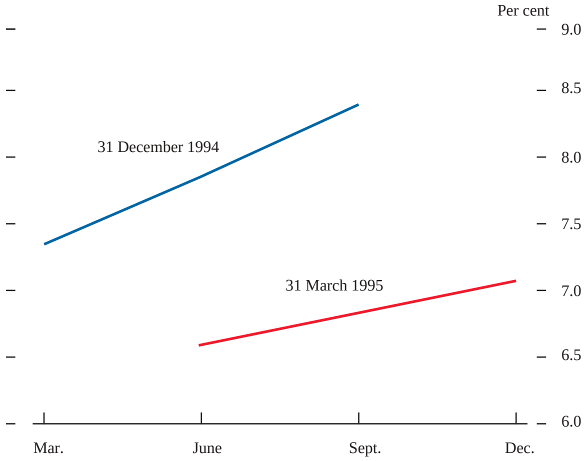
In the international markets, the recent shift in borrowing away from straight, fixed-rate bonds towards medium-term notes (MTNs) and syndicated credits continued. 1994 was a record year for international equity issues, with privatisations and offerings from companies in developing countries particularly significant. Further privatisations are expected to maintain the high levels in 1995. Last year, there were also a record number of issues by newly listed companies on the London Stock Exchange; market predictions for 1995 are that such issues will be fewer, but of larger average size.

Turnover on derivatives exchanges worldwide rose during the first quarter, although volumes were still generally down on the exceptional levels seen in the first half of 1994. Competition between exchanges continued to intensify, but there was also a willingness to establish mutually-beneficial trading agreements.

Bond and other debt markets

In the US Treasury market, the differential between three-month rates and the ten-year yield fell by 82 basis points to 132 basis points. The yield curve flattened for the second successive quarter; but whereas in the fourth quarter of 1994 the flattening reflected rises in short-term rates, in the first quarter it was the result of falling long-term bond yields. Strong investor demand at the long end of the yield curve, despite the weakness of the dollar, reflected a growing view that the Federal Reserve was near the end of its tightening of monetary policy and greater confidence about inflationary prospects; long-bond yields ended the quarter down almost 50 basis points at 7.43%. The change in perception concerning future interest rates can be seen in Chart 1. By the end of the quarter, however, interest rate futures still suggested that market participants expected further increases in short-term interest rates—of around 50 basis points—by the end of June.

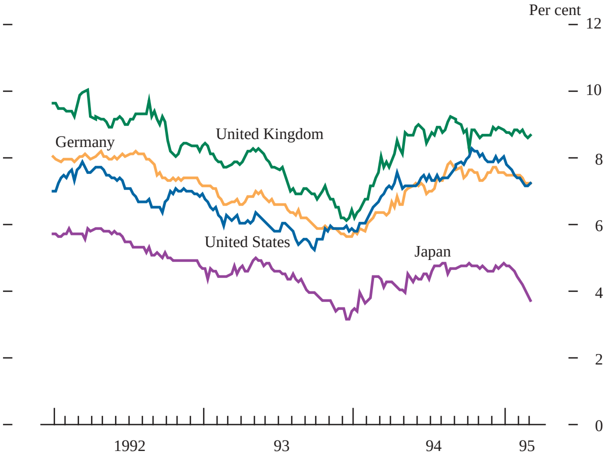
Chart 1
Implied US three-month forward rates



Source: Bloomberg.

The prices of Japanese government bonds also rose during the quarter, with the yield on the ten-year bond falling almost 100 basis points to 3.68%, its lowest level for over a year (see Chart 2). Several factors—including the weakness of the equity market and the appreciation of the yen—led to speculation that official short-term interest rates might be eased. In addition, bond prices rose as a result of the continued repatriation of funds by domestic investors.

Chart 2
Ten-year government bond yields



Source: Bloomberg.

Yield curves also flattened sharply in the major continental European markets. Yields on German government bonds (Bunds) fell; the yield on the ten-year Bund ended the quarter down almost 50 basis points at 7.19%. The strength of the Deutsche Mark, which was viewed as a 'safe haven' after the financial crisis in Mexico, and subdued M3 growth figures outweighed market concerns about inflationary pressures arising from the annual wage round. The spread between ten-year French government bonds and Bunds, which had widened during 1994, fluctuated in a range of about 60 to 90 basis points for most of the quarter, with movements largely reflecting political uncertainties prior to the French presidential election.

International issues

Gross borrowing in the international bond markets during the first quarter totalled $98 billion, 28% down on the same quarter of 1994. Fixed-rate issues increased marginally compared with the same quarter, to $82 billion, reflecting greater investor confidence about inflationary prospects in most major economies. Floating-rate note (FRN) issues fell by 37%, as the concerns witnessed last year about oversupply and the liquidity of structured products continued. FRN issues totalled $14 billion, compared with $39 billion in the same quarter of 1994. Equity-related issues also declined, to only $2 billion, compared with over $20 billion a year earlier.

The shift in borrowing in recent quarters away from straight, fixed-rate bonds and towards MTNs and syndicated credits continued. Issues of euromedium-term notes (EMTNs) were $53 billion, a rise of over 70% on a year earlier. The tendency of shorter-maturity assets to be less price sensitive to interest rate changes was a significant reason for this growth; although the maturity range of EMTNs has widened, they are still generally of shorter maturity than bonds. Investor preference for shorter-maturity assets has also been illustrated by the fall since the first quarter of last year in the average maturity of dollar and Deutsche Mark denominated fixed-rate international bonds.

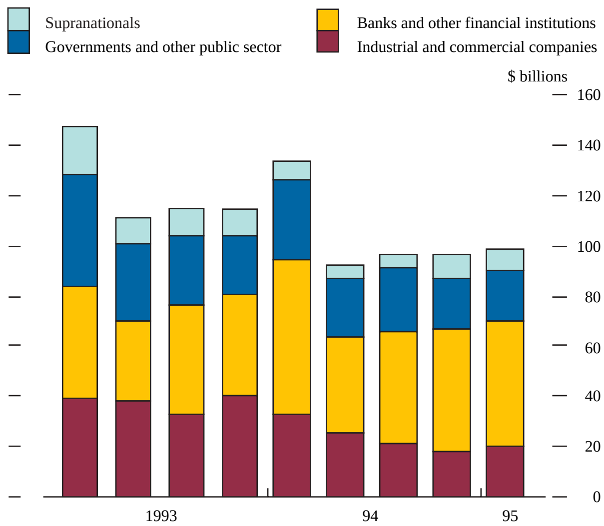
Table A
Total financing activity:(a) international markets by sector

$ billions; by announcement date

	1994				1995
	Year	Q2	Q3	Q4	Q1
International bond issues					
Straights	296.1	68.6	75.0	75.4	81.7
Equity-related	33.2	5.7	4.0	2.8	2.3
of which:					
Warrants	*10.8*	*0.8*	*0.7*	*1.1*	*0.9*
Convertibles	*22.3*	*4.8*	*3.3*	*1.7*	*1.4*
Floating-rate notes	92.7	17.8	17.9	18.3	14.2
Bonds with non-equity warrants (currency, gold, debt)	0.1	—	—	—	—
Total	**422.1**	**92.1**	**96.9**	**96.5**	**98.2**
Credit facilities (announcements)					
Euronote facilities	193.3	46.0	40.2	71.4	54.9
of which:					
CP	*36.4*	*15.4*	*10.9*	*6.2*	*6.8*
MTNs	*157.0*	*30.6*	*29.3*	*65.2*	*48.1*
NIFs/RUFs	—	—	—	—	—
Syndicated credits	248.6	64.5	59.3	72.8	99.4
Total	**441.9**	**110.5**	**99.5**	**144.2**	**154.3**
Memo: amounts outstanding					
All international					
Bonds (b)	2,061.9	2,060.1	2,049.3	2,061.9	2,211.0
Euronotes (c)	406.1	330.3	378.7	406.1	461.6
of which, EMTNs	*292.0*	*216.5*	*259.4*	*292.0*	*347.1*

(a) Maturities of one year and over. The table includes euro and foreign issues and publicised placements. Issues which repackage existing bond issues are not included. Figures may not add to totals because of rounding. Bond total includes issues from MTN programmes.
(b) BIS-adjusted figures, including currency adjustment. Includes issues of fixed-rate bonds and floating-rate notes.
(c) Euroclear figures.

Chart 3
Borrowers in the international bond market



Source: Bank of England ICMS database.

In addition, there was a large increase in international syndicated lending; announcements in the quarter totalled $99 billion, an increase of 85% on the first quarter of 1994. The very low spreads that have become common in this market (in part reflecting increased competition among banks) contributed to the rise. The shift to shorter-maturity assets was also seen in eurocommercial paper (ECP) issues, which totalled over $100 billion.

Dollar issues

The dollar's share of international issues declined during the first quarter. A move towards shorter-maturity instruments in international dollar debt markets reflected the general trend: the average maturity of international dollar fixed-rate bonds fell to 5.9 years from 6.5 years a year earlier. As Table B shows, gross bond issues in dollars constituted 31% of total international issues, compared with 39% a year earlier—a fall of 43% by value. Dollar FRNs' share of total international FRN issues also fell over the same period, from 66% to 42% (a fall of 76% by value). And corporate international issues in dollars in the quarter were half those a year earlier. By contrast, dollar-denominated syndicated credit announcements were up 31% on a year earlier.

Table B
Currency composition of international bond issues

$ billions

Currency denomination	1993 Year	1994 Year	Q2	Q3	Q4	1995 Q1
US dollar	175.6	147.3	26.2	30.6	37.3	30.6
Yen	58.7	77.8	20.7	23.9	22.1	13.6
Deutsche Mark	56.4	39.8	8.4	8.5	9.2	14.3
Sterling	42.6	29.5	6.6	5.3	4.1	6.5
French franc	42.3	28.7	8.5	3.1	3.5	4.8
Swiss franc	27.5	20.8	3.2	6.2	4.3	5.7
Italian lira	12.3	17.1	5.0	4.6	2.7	5.9
Ecu	11.4	7.6	1.8	1.5	0.9	2.9
Other	58.2	53.3	11.6	13.2	12.3	14.0
Total	**485.0**	**421.9**	**92.0**	**96.9**	**96.4**	**98.2**

Source: Bank of England ICMS database.

In the US domestic market, gross bond issues by companies during 1994 totalled $141 billion—58% of the 1993 figure—and equity issues by US companies fell sharply. Gross corporate borrowing in the US domestic MTN market also fell in 1994, to $18 billion—37% lower than in 1993—contrasting with the growth in the international market. But in bank lending, where there had been net repayments by companies of $14 billion in 1993, there was corporate net borrowing of $61 billion in 1994. Total gross government borrowing of $568 billion was 11% down on the previous year, ending an upward trend of several years.

Yen issues

International issues in yen fell to $13.6 billion in the first quarter, but were still up on the level a year earlier. Yen-denominated corporate international borrowing was $1.8 billion, continuing its downward trend of four quarters. The average maturity of yen-denominated international bonds rose to 6.0 years from 5.7 years a year earlier, in contrast to the shortening in dollar and Deutsche Mark denominated bonds. Gross domestic bond issuing by Japanese companies rose to ¥6.2 billion in 1994, 5% up on 1993 levels. Gross central government borrowing was almost ¥56 trillion in 1994, a 9% increase on 1993 and continuing an upward trend of several years.

The Japanese Ministry of Finance was reported to be considering lifting, by the end of March 1996, the 90-day 'lock-up period' for euroyen bonds issued by non-Japanese corporations, to enable Japanese investors to diversify. Under the so-called *seasoning* rule, euroyen bonds cannot be sold to Japanese investors for a period of 90 days after issue. After a similar deregulation of the euroyen issues made by non-Japanese public-sector borrowers in January 1994, issues by non-Japanese entities increased to $52.3 billion in 1994, almost three times the level in 1993. Although this growth may also have reflected other factors—such as low coupons and the strength of the yen—similar growth is expected if euroyen issues by foreign companies are deregulated.

The proposed deregulation could adversely affect the Samurai market.(1) Borrowing in this market fell in 1994, partly because of the reform of the euroyen market, which issuers preferred on grounds of liquidity as well as cost. The Samurai market has also suffered a decline in credit quality: there have been no AAA-rated issues since 1993. There is a separate issue about the increasing dependence of the Samurai market on one group of investors—regional institutions—which are prohibited from buying euroyen issues.

Deutsche Mark issues

The Deutsche Mark sector's share of gross international bond issues increased to 15% during the first quarter, helped by the currency's perceived stability. Compared with the first quarter of 1994, the average maturity of Deutsche Mark denominated international bonds fell by 2.7 years to 5.4 years, reflecting the general move to shorter-maturity assets. In the German domestic markets, however, it has been difficult to identify a switching away from bonds, because gross domestic corporate bond borrowing has been very low (only 0.1% of total gross domestic bond borrowing in 1994). But net bank lending to companies fell by 6% to DM 320 billion in 1994, with new loans mainly of longer maturity.

In recent years, German domestic bond markets have been driven by the need for capital to fund German unification. Over 1994, total domestic gross bond issues fell by 14% to DM 627 billion, mainly because of a fall in government (central, state and local) gross borrowing. This totalled DM 112 billion in 1994, 43% lower than in 1993 (but still much higher than 1989's pre-unification borrowing of DM 66 billion). The fall coincided with the winding-down of the Treuhandanstalt,(2) a major borrower in recent years (it raised DM 59 billion during 1994). By contrast, German equity market issues have been rising since 1991.

Sterling issues

Gross sterling bond issues totalled £4.3 billion during the first quarter, compared with £2.9 billion in the previous quarter. Both UK and overseas issues increased, but overseas public-sector issues rose particularly strongly: the EIB's £500 million eurobond was the largest sterling issue

(1) A Samurai bond is a yen-denominated bond issued in the Japanese domestic market by a foreign issuer.
(2) The state holding company created to take over the industries owned by the former East German state and to oversee their privatisation.

for more than a year. A number of eurosterling issues included an option to convert to registered form, in anticipation of an announcement by the Inland Revenue on the paper eligible to be held in corporate-bond PEPs. In March, the domestic sterling market was boosted by two new issues, by the University of Lancaster and Newport Borough Council. Total sterling commercial paper outstanding fell marginally over the quarter to £5.9 billion, while sterling MTNs outstanding rose by 11% to £12.7 billion.

Ecu markets

In the United Kingdom, there were regular monthly auctions of ECU 1,000 million of Treasury bills during the first quarter, comprising ECU 200 million of one-month, ECU 500 million of three-month and ECU 300 million of six-month bills. The auctions continued to be oversubscribed, with issues being about twice covered. Bids were accepted at yields up to 20 basis points below the Ecu Libid rate of the appropriate maturity, in line with previous spreads achieved since the Ecu market disturbance in 1992. There are currently ECU 3.5 billion of Treasury bills outstanding; secondary market turnover has continued to average ECU 2–3 billion a month.

ECU 1,000 million of the fourth three-year Ecu Treasury note was auctioned on 17 January. It is expected that the issue will be reopened in April, July and October. Cover at the auction was 2.9 times the amount on offer and accepted bids were in a tight range of 8.05%–8.07%. The first issue of Ecu notes matured in January and the total value of notes outstanding fell to ECU 5.5 billion (though outstandings will increase during the year as the fourth note is reopened). Secondary market turnover was particularly strong, continuing the increasing trend since 1992. The UK government's total outstanding Ecu debt was ECU 11.5 billion at the end of the quarter.

The French government issued a total of ECU 1,930 million in bonds and notes during the quarter, taking its outstanding Ecu debt to ECU 23.2 billion. The Italian government issued ECU 744 million of notes in January; the total outstanding at the end of March was ECU 25.6 billion. There were also ECU 5.9 billion of Italian government eurobonds outstanding. The ECU 2.3 billion ($2.9 billion) of international Ecu bond issues in the quarter comprised issues by Denmark and Austria, as well as corporate issues from a number of countries and issues by supranationals.

Emerging markets

The devaluation of the Mexican peso on 20 December led to a sharp fall in other emerging bond and equity markets. The prices of Brady bonds,(1) as measured by the Salomon Brothers' index, fell 11% over the first quarter and emerging equity markets fell 15%.(2) There were widespread effects on investor confidence in other markets, particularly in Latin American assets. Argentinian and Brazilian Brady bonds fell more than Mexican during January and February, as market concerns spread to other highly indebted countries. Equity markets as diverse as Hungary, Poland, South Africa and India were also adversely affected.

Markets in Asia started to recover as the quarter progressed. In February, there was a clear difference in the performance of Latin American (-14.5%) and Asian (+8.7%) emerging equity markets, but this difference faded in March as most Latin American markets surged. The effect of the Mexican crisis was only one influence on Asian markets: the weakness of the Japanese equity market and concerns about Chinese political developments also had an impact.

Latin American borrowers were almost entirely absent from international bond markets during the quarter: total issues fell from $5.8 billion in the last quarter of 1994 to $196 million (and $300 million in international syndicated credits). Issue levels were even lower than during the global bond market turbulence in the second quarter of 1994. By contrast, Asian borrowers seemed to switch to syndicated credits—borrowing $12.8 billion, compared with $9.8 billion in the fourth quarter of last year. The total of Asian bonds issued fell from $3.9 billion to $2.6 billion.

The Mexican crisis added to earlier problems in emerging markets, which had a difficult year in 1994 after booming in 1993. After reaching historic highs at the beginning of 1994, the markets fell heavily as major bond markets weakened. A number of analysts predicted that emerging markets would be depressed for many years, but they recovered to their former highs by late September. They then again drifted lower, however. Over 1994 as a whole, Mexican Brady bonds fell 25% and Mexican equities 38%; emerging Asian equities fell 13%; and Latin American equities were down 9.5%. By the end of the first quarter, emerging equity markets had fallen back to their mid-1993 levels and Brady bonds were about 8% lower than a year earlier. Concerns arising from the Mexican crisis also led to a resurgence of investor concern over countries with high levels of public debt.

It is too early to draw conclusions about long-term shifts in the pattern of capital flows to emerging markets, but the events of the first quarter have led both to renewed discussion of the most suitable form for flows to developing countries and to a greater appreciation of the interdependence of capital markets worldwide.

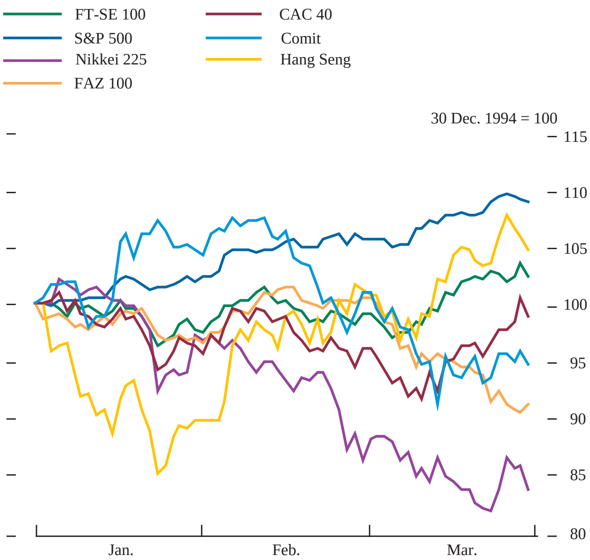
Equity markets

Over the first quarter, the strongest rise in the major equity markets was in the United States: the Standard and Poor's 500 index rose 9%. Confidence that interest rates would not rise further in the short term overrode concerns that US-listed companies with exposure to Mexico would be adversely affected by the Mexican crisis.

The Japanese Nikkei 225 index fell by 16.3%. The main reason for this was the strength of the yen against the dollar,

(1) Bonds issued by the government of a developing country to refinance its debt to foreign commercial banks, under a Brady-type agreement.
(2) The equity indices referred to are the International Finance Corporation Total Return Investible indices, expressed in US dollar terms.

Chart 4
Equity indices



which led to concerns that exporters would be adversely affected. The earthquake in January resulted in portfolio-switching out of export-orientated and technology stocks, and into construction-related stocks, but the net effect on the Nikkei index was limited. The Hong Kong equity market was very volatile during the quarter, with the Hang Seng index ranging from a low of 6,968 in the middle of January to a high of 8,828 in the latter part of March. Sharp falls in January were partly the result of foreign investors withdrawing funds, as concerns from the Mexican crisis spread to Asia.

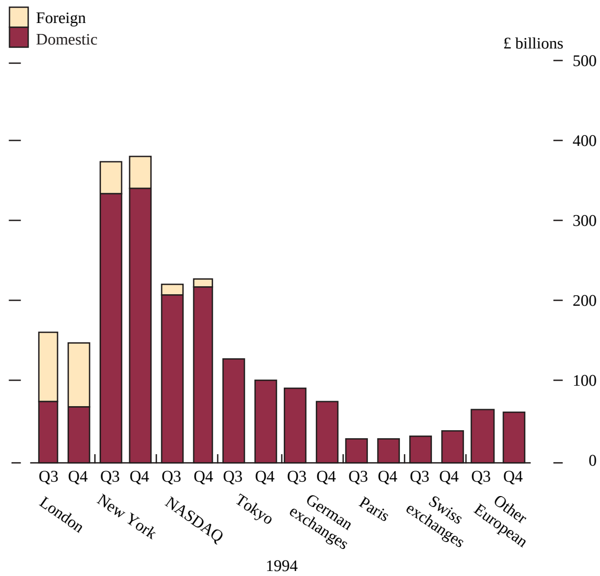
The UK equity market—as measured by the FT-SE 100 index—rose by 2.4% over the quarter. Take-over speculation fuelled activity early in the quarter, with the prospect of a large cash injection to the market resulting from Glaxo's successful take-over of Wellcome. The Barings crisis led prices to be marked down when markets opened on 27 February, but there was less selling than many commentators had expected, and the FT-SE 100 index fell only 12 points (0.4%) on the day. Equities rallied towards the end of the quarter, as confidence grew that there would be no further rises in domestic interest rates in the near future.

There was no consistent pattern to price movements on other major European exchanges during the quarter. In Germany, the FAZ 100 index fell by nearly 9%, mainly because of concerns that exporters' profits would be reduced by the sustained strength of the Deutsche Mark. The unexpected discount rate cut on 30 March led equity prices to recover slightly. The French market was weak for most of the quarter, affected by uncertainty in the run-up to the French presidential elections. But good corporate news and an easing of political concerns resulted in a rapid recovery; and the CAC 40 index ended the quarter only 1% below its level at the start of the year. The Italian equity market, as measured by the Comit index, fell 5.2% during the quarter. Early optimism, following the formation of an interim government, was reflected in a strong rise in equity prices in January, but concerns resurfaced over fiscal prospects and wide-reaching pension reforms.

Turnover

Turnover on the London and New York stock exchanges has been stable in recent quarters. Suggestions that reforms of other European exchanges might lead business to be repatriated from London have not been confirmed by published data. But prospective privatisations across Europe and moves to private pension funding are expected to increase volumes on European exchanges in the longer term.

Chart 5
Turnover of domestic and foreign equities on major stock exchanges



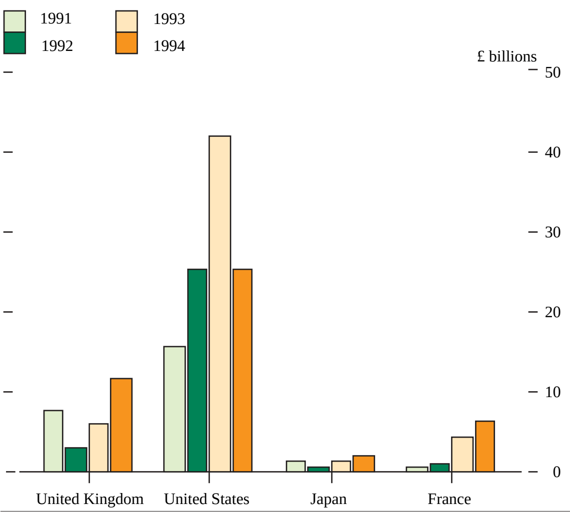
Despite a temporary boost resulting from portfolio-switching in the aftermath of the Kobe earthquake, trading on the Tokyo Stock Exchange remained low by historical standards. Since 1992, annual turnover has been well under ¥100 trillion, compared with over ¥300 trillion in 1989. Some commentators expect securities houses in Japan to suffer heavy losses in the current financial year, because of the lower revenues resulting from reduced turnover. Four US firms delisted from the foreign section of the Tokyo Stock Exchange during the quarter.

Equity issues

Issues of international equities—offers of equities with an international tranche—almost doubled in the two years from 1992, reaching $45 billion in 1994. Large-scale privatisations accounted for an unprecedented $9.3 billion of international equity offerings in 1993 (22% of the total) and $13.6 billion (30% of the total) in 1994. Offerings from companies in developing countries also increased, from $8.2 billion in 1993 to $15.6 billion in 1994. In the first quarter of 1995, around $5.4 billion of international equities were issued. These included the international tranches of the UK government's remaining £4 billion stake in National Power and PowerGen, and the FFr 5.8 billion privatisation of the French tobacco company, Seita. The OECD estimates that European governments will privatise $41 billion of state assets in 1995, having sold $51 billion in 1994; the French, Italian and UK governments are expected to be the largest sellers.

In the UK equity market, £1.4 billion was raised from rights issues by UK and Irish companies during the first quarter, of which £400 million was raised by Cadbury Schweppes. This compared with total rights issues of £7.1 billion last year. In 1994, there were a record number of issues by companies newly listed on the London Stock Exchange: 256 UK and Irish companies joined the Official List, raising £11.5 billion between them. (This compared with 101 companies in 1991, 82 in 1992 and 180 in 1993.) Towards the end of last year, however, several newly floated companies issued profit warnings, and others postponed issues or accepted lower offer prices.

Chart 6
Equity capital raised by newly listed companies



The market is expecting this year that issues by newly listed companies will be fewer, but of larger average size. In the first quarter, 43 companies joined the Official List, of which 24 raised capital totalling £905 million and 14 transferred from the Unlisted Securities Market (USM). USM companies can take advantage of an amendment to the Listing Particulars Directive, which enables a company that has been traded on the USM for at least two years to move to the Official List without producing full listing particulars.

New equity markets

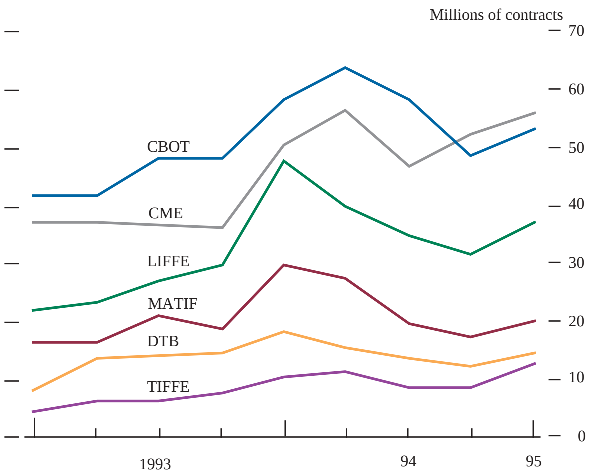
The London Stock Exchange published the rules of the Alternative Investment Market (AIM) which is to begin operations on 19 June. AIM is targeted at small, young companies with growth potential and companies whose shares are currently traded under Rule 4.2 (the Stock Exchange's occasional dealing facility). Companies currently traded on the USM will be able either to move to the Official List or to apply to join AIM.

The Paris Bourse announced details of its plan for a new market (the *Nouveau Marché*), which will also be aimed at small, high-growth companies. The Paris Bourse was one of the original supporters of EASDAQ (the proposed pan-European small companies market) and intends the new market to be a first step towards a pan-European association of similar markets.

Derivatives markets

Turnover on derivatives exchanges worldwide rose during the first quarter. The turbulence in foreign exchange markets during March, and the reduction in German interest rates, led to increased activity in currency, interest rate and bond contracts after a quiet start. However, turnover was generally below the exceptional levels seen in the first half of 1994. The notable exception was the Chicago Mercantile Exchange (CME), largely because of strong growth in its eurodollar futures contract. The lower volumes worldwide compared with the first quarter of last year reflected a return to the underlying upward trend in exchange-traded derivatives markets, rather than a downturn (see Chart 7).

Chart 7
Quarterly turnover on major derivatives exchanges



Volumes on the London International Financial Futures Exchange (LIFFE) increased by 19% during the first quarter—with all LIFFE's major contracts posting increases—but total open interest ended the quarter down 11%. Turnover on the LME was 4% down on the record levels seen at the end of last year, but turnover on the LCE was up 32%.

In the United States, volumes on the CME were up 7% during the first quarter. Turnover in its eurodollar futures contract rose 10% quarter on quarter and 25% year on year, consolidating its position as the world's most actively traded contract. Short-dated interest rate contracts continued to challenge longer-term government bond contracts as the world's most actively traded on-exchange sector. Turnover on the Chicago Board of Trade (CBOT) rose 10% during the quarter, with turnover in the US Treasury bond future—the world's most actively traded bond futures contract—up 15%. Over the first quarter, turnover on the DTB and MATIF—the main German and French derivative exchanges—was up

Chart 8
Turnover on London derivatives exchanges

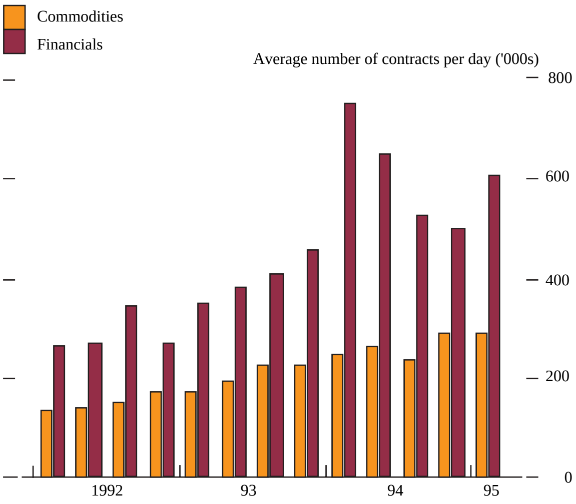
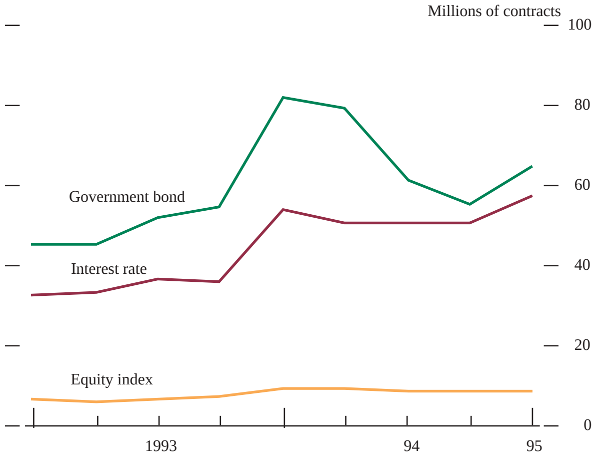


Chart 9
Quarterly turnover of futures by type[a]



(a) Turnover in the major futures contracts listed on the CME, CBOT, LIFFE, DTB, MATIF and TIFFE.

19% and 16% respectively, and turnover on TIFFE, Japan's largest derivatives exchange, was up 48%.

In contrast to the exchange-traded derivatives markets, data on over-the-counter (OTC) derivatives are less comprehensive and available only after a lengthy delay.[1] In its latest biannual survey of activity, the International Swaps and Derivatives Association (ISDA) reported that swaps and related derivative transactions represented a notional principal value of $4,200 billion for the first half of 1994, more than double that a year earlier. This increase was in line with the high turnover recorded in on-exchange and underlying cash markets in the period. Data on OTC activity for the second half of 1994 are expected to show a fall in turnover, partly because of the adverse publicity surrounding large derivative-related losses by a number of corporate end-users, and partly apparently because some dealers are becoming reluctant to commit increased capital to these markets.

Exchange developments

The range of products offered by exchanges widened further in the first quarter. Some of the new products mimic the risk characteristics of OTC products. The CME extended its range of rolling spot and forward contracts to cover the Japanese yen. The CBOT announced plans to launch futures and options contracts on US yield curve spreads. OMLX—the London Securities and Derivatives Exchange—launched flex[2] futures and options on a range of FT-SE indices. And LIFFE introduced serial options[3] on its long-gilt futures contract, and is planning to introduce equity flex products as well as futures on individual stocks.

In addition, the CME announced plans to create a swap collateral depository. The depository, which is planned to open in the second half of this year, will receive and accept swap transactions from commercial and investment banks, mark them to market and report positions on collateral held for member banks. It will not, however, guarantee swap transactions.

The LME's decision to open copper delivery warehouses in the United States has brought the exchange into more direct competition with the New York Mercantile Exchange (NYMEX). In an attempt to boost volumes, NYMEX announced a range of new measures for its copper contracts, including extending floor trading hours and listing the futures contract on ACCESS, the exchange's electronic afterhours system. NYMEX has also announced plans to launch an aluminium contract; aluminium is currently the LME's second most liquid contract. In March, the US Commodity Futures Trading Commission asked the LME to prepare an analysis of the impact that its decision will have on the US market.

In March, LIFFE and the CBOT announced plans for a trading link, enabling each to trade the other's most liquid bond futures and options contracts in open outcry on its own trading floor. LIFFE will trade the CBOT's US Treasury bond contracts, and its five and ten-year US Treasury note contracts, in morning trading in London. CBOT will trade LIFFE's Bund, BTP (Italian government bond) and long-gilt contracts in afternoon trading in Chicago. These plans require member and regulatory approval, and will not be implemented for at least a year. They would further LIFFE's aim of forging links with exchanges outside the European time zone: in January, LIFFE signed a letter of intent with TIFFE to trade its euroyen futures contract in London. In addition, LIFFE was granted recognition by the French authorities as an overseas investment exchange and, in a reciprocal agreement, MATIF was approved as a recognised overseas investment exchange by the Treasury.

(1) See the article on statistical information on derivatives on pages 185–91.
(2) *Flex contracts* are characterised by the ability of participants to customise the terms of each contract.
(3) Shorter-dated options which expire on months other than the usual quarterly months.