

The DESK

Friday, April 8, 2005

SPECIAL REPRINT

London, Are You There?

It Was a Big Week For the London-Based IPE and possibly an even bigger week for NYMEX. Thursday afternoon marked the final session of the IPE open-outcry pits. As of today, the famed British institution is all about the screens.

Where we had the IPE pressing home the “out with the old and in and with the new” dance, the NYMEX folks down the lane were busy doing the White Knight shuffle – and dishing out lots of free cash for travel expenses to Dublin.

From this side of the pond, it's tough to be objective. Most of the available sources on this week's event seem to be either locals or their big commercial brethren who share the Brent ring. In both cases; nobody's real happy with the pit closures; everybody made lots of money for a long time. We read half a dozen stories this week in the UK press, in which various floor traders complained how their livelihood has just been destroyed or how their marriages will probably end soon due to the new Dublin commute. All seemed quite adamant that they would never trade on the screens. “We have no choice,” we heard them say, “open outcry is all we've ever known.” Sounds like an argument from a different industry sector, like steel or buggy whips.

In 2005, this sounds like a pretty ridiculous argument to some folks, but there it is. For now anyway, the only pit trading in the far reaches of Western Europe will be in a cramped spot in Dublin. According to a BBC story this week, one local trader suggested that “at least 140 traders and market makers from London and the US are planning to relocate to Dublin,” to breath some life into the modest NYMEX operation there. That's a lot of bodies by any measure. And from what we're told, an unrealistic number for the

current facility in Dublin. Nonetheless, lots of folks are Ireland-bound, and volumes should spin up pretty high in the coming days and weeks. As such, this dog is far from dead. And NYMEX has ultimately positioned itself to face one of two possible extremes: complete failure or eventual success. Once the NYMEX pits open up in Q4, supported by ACCESS (NYMEX's own Internet-based electronic trading system), they will immediately, albeit theoretically, have a leg up on the competition. But, the competition will by that time have some pretty significant volumes, solid market buy-in and, of course, momentum.

In retrospect, had the IPE continued to offer both screens and the pit, NYMEX wouldn't have had a prayer. Europe would have remained a nonstarter. But we imagine the IPE knows this.

A few of the other folks who also dabble in the IPE markets, big banks and the like, had a more subdued view of the pit closures. While most qualified their answers with some measure of sadness or nostalgic mutterings about dying traditions, in the end these guys are mostly screen traders anyway.

Others, like the global energy brokerage Amerex Energy, are preparing to play all the angles. The company has a significant presence in the IPE and NYMEX pits, and also employs a few hundred others (on several continents) to only trade the screens. Amerex is considered to be one of the most technologically advanced energy brokers in the galaxy and they also make a significant amount of dough on the IPE floor – or used to, anyway. Company chief Michael Cosgrove tells *The Desk* that once the pits go dark, “We plan to cover all the bases. We will have an ‘A’ Team in Dublin and we will have an ‘A’ Team in London manning the screens and interacting with the OTC mar-

WWW.SCUDDERPUBLISHING.COM
kets...” We reckon this is close to the final reality for many of the big IPE shops. You're gonna trade where there's money to be made and opportunities to be had, because that's the job.

Markets are about progress, somebody once told us, but progress, like art, is also in the eye of the beholder – or the victor. The IPE for its part has opted for technological progress alone. NYMEX, on the other hand, is pressing for a different sort of progress, one which involves a new, potentially stronger and more liquid open-outcry operation in London, with a 24-hour electronic cousin, just down the lane from the IPE's humming mainframes.

Since the IPE screens are a proven option, that exchange has little to lose at this point. The question of whether or not the screen-only strategy will work is moot. It works. And the volumes continue to grow. Not unlike the volumes on NYMEX's own ACCESS system.

The real question is whether the new facility is sustainable in the long run. Despite what the local community might think, neither NYMEX Dublin nor the forthcoming London open-outcry operation will survive without the support of the nonlocals. NYMEX believes that the six-month (or so) hiatus from London won't change anybody's mind about the need for floor trading. Everybody will come back, and then some.

Wise men of the Street suggest that both operations cannot survive side by side for any sustainable period of time. And the financial press tends to eat up sound bites to that effect. This is certainly how both camps are playing the game – all or nothing. That's great for folks in our business. But were you to ask somebody outside either camp about this all-or-nothing thing, you'll be surprised to learn that the opinion isn't universally held.

Former floor broker turned power and gas trader turned consultant D.Neil Levy seems to think there is plenty of candy to go around. So can the two survive and thrive side by side?

“Why not?”

But that said, the catch-all phrase “the market will certainly make the decision” was not far behind. At this hour, the pressure is on the NYMEX to pull off this palace coup. They have the cash and the staying power, but only time will tell if the interest is there.