

Bolsa de Mercadorias de São Paulo: the first modern commodity exchange in Brazil

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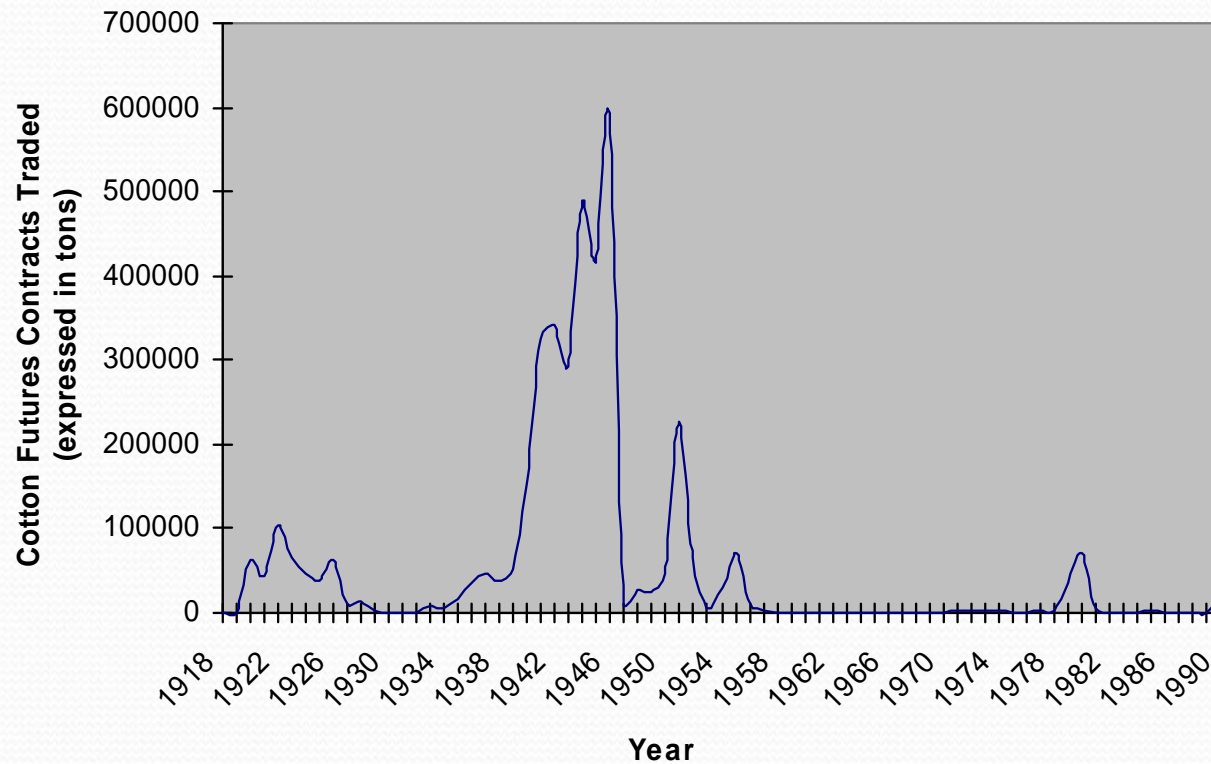
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BACKGROUND

- “Tese de Livre Docência”
- University of São Paulo tenure process
- Previous presentation 2006, APEBHC-Brisbane
- Title of *TESE*: Futures Contracts traded in BMSP: a history in three acts
- Seven chapters, 281 pages

Cotton Contracts Traded in the BMSP Exchange

Development of the Cotton (plume) Future Market (1918-1990)



Three Acts of the Exchange

- Act # 1 : institutional innovation to create a market for cotton futures (1917-mid 1950)
- Act # 2 : government intervention kills the market (mid 1950 – mid 1970)
- Act # 3 : BMSP tries to trade financial futures, meet competition with an emerging exchange, and ends up “merged” with the new exchange (mid 1970-1987)

Leit Motiv: Economic function of futures contracts and exchanges

- Economic history of futures and exchanges
- Economic thought about futures markets
- Creation of new exchanges

Launching a new contract

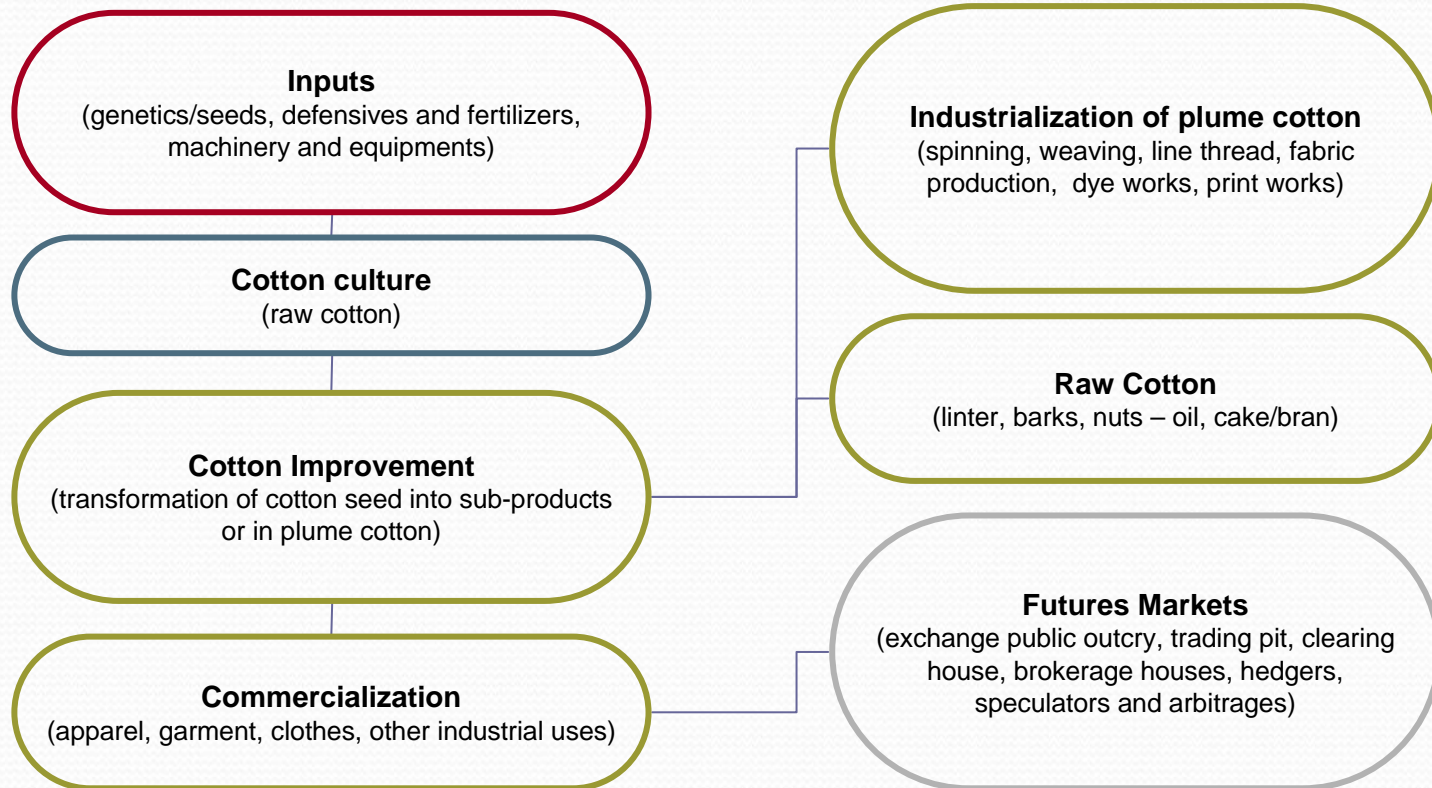
- First stage: the pre-requisites
- Second stage: strategy for launching a new contract
- Third stage: the alchemy of liquidity
- Fourth stage: manage the life cycle of the contract

The birth of the BMSP exchange

- Economy and finance as the back stage
- Cotton agribusiness and production chain
- Cotton production in São Paulo
- Purpose of the new Exchange
- Organizational architecture
- Clearing and settlement in BMSP



The Cotton Agribusiness



Act # 1 : the initial years of BMSP and the cotton futures contract

- First contract
- Initial trading
- Bokers, floor trading and prices
- Hedgers and speculators
- Cotton spot market
- Futures market of cotton in BMSP
- Strategy of BMSP for “create” a market
- Appraisal of strategic planning from a historical analysis
- BMSP as an innovator exchange
- “Institutional micro-tools” creation
- Futures trading “institutional macro-structure”
- The role of BMSP in the São Paulo cotton agribusiness

Act #2 : Decline and Decadence of BMSP

- Macroeconomic background of Brazil
- Agriculture and Cotton in post-War in Brazil
- Importance of Cotton for BMSP
- Anomaly of decline of BMSP in a booming scenario
- Causes:
 - Federal and state taxation
 - Price support for cotton
 - Multinationals/industry concentration/chain production
- International experience of cotton exchanges
- lessons

Act #3 : BMSP attempt for trading financial futures

- Strategic dilemma for BMSP: agriculture or financial? Monopoly or duopoly?
- Financial markets in Brazil in late 70s and 80s
- Industrial organization of futures markets in Brazil as seen by BMSP
- Macroeconomic stage: hyper inflation and external debt
- Competition in Brazilian financial industry
- Financial innovation
- Financial “culture” versus “commodity culture”
- Governance of Exchange and decision making
- Brokers against exchange executives
- Clearing house as a competitive advantage for BMSP
- Game theory applied
- BMSP trading in the 80s
- End of game: BMSP “mergers” and becomes BM&F (the fourth largest futures exchange in the world, and first among emerging markets)

Conclusion

- Importance of economic history approach for finance
- Knowledge about long term life of a contract
- Role of “micro-institutions”
- Government versus market instruments