Futures trading is way older than you think

By Rachel Timmins

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For as long as humanity subsisted on agricultural produce, futures trading has been here. Futures contracts rectified the need to secure a yearlong supply of otherwise seasonal crops and commodities. In fact, many historians point out that futures contracts could have started out as handshakes.

Futures trading is generally believed to have started in the 1730s in Japan, where merchants would stash rice in storehouses and then sell receipts called 'rice tickets' against them. However, research shows that crop futures had been traded several millennia before.

Here we track the long and storied journey of futures trading, from ancient Middle East to 19th century America.

Ancient Mesopotamia

It is only fitting that futures trading is traced back to the land where writing was born. Inscribed on cuneiforms, the ancient civilisation's signature clay tablets, were arguably the first derivative contracts. One, written probably around the 19th century BC, described the sale of "30 wooden planks, ten of 3.5 metres each, twenty of 4 metres each" at an appointed date by one Magrattum Akshak-shemi to Damqanum. Another described a contract between no less than the King's daughter and a pair of farmers around "three kurru of barley." Of course these are just two of the hundreds of thousands of cuneiforms sitting pretty in the British Museum.

Ancient China

History shows that the ancient Chinese may have dabbled in futures contracts for rice as long as 6,000 years ago.

Ancient Egypt

Mesopotamia's trading system of remained intact in southwest Asia even under Greek rule. In fact, many papyrus scrolls that survived out of Hellenistic Egypt were actually commercial contracts of some sort. On the whole, however, Greeks were averse to the idea of securing future supplies by way of contracts.

Roman Empire

Romans have copied many things from Greeks except in matters of crop security. With the Roman Empire covering a wide swath of the globe, the importance of securing contracts for future delivery of goods easily presented itself. Such commercial system was ultimately enshrined in Roman law. *Vendito re speratae* was a contract that insured one against crop loss, especially with the expansive trading routes crisscrossing the Empire, while *venditospei* resembled modern forward contracts.

Byzantine Empire

Under Emperor Justinian, one could trade derivatives, including contracts for future delivery of goods, over the counter, although the timeframe for such agreements were ambiguous to historians.

Italian Renaissance

Derivative trading from Mesopotamia might have spread further than thought. Sephardic Jews might have carried it to Spain during the days of Imperial Rome, before it diffused to the Low Countries and the progressive city-states of Italy. During the Renaissance, these metropolises were enamoured with *monti* shares, said to be the predecessors of bills of exchange. From the 1540s onwards, traders in the region introduced contracts for differences, i.e. agreements to settle forward contracts by paying the difference between the spot price and the promised price of the asset to be delivered. Contracts for differences were generally held by financial historians to be the antecedents of futures contracts.

16th century Amsterdam

By the late 16th century, Amsterdam had become the most progressive economic centre in Western Europe. A prominent player in the maritime spice trade,
Amsterdam pushed to the fore the need for securities like bills of exchange as well as forward contracts. As in Italy, merchants simply settled for contracts for differences rather than delivering the promised goods.

During the Tulipmania, a primeval financial bubble that involved tulips from Turkey, contracts for differences were used to speculate on the flowers, which at that time were said to cost as much as a house.

17th century England

England was a very backward economy when compared with Amsterdam during its halcyon decades. In fact, the negotiability of bills of exchange was still being debated in the kingdom as late as the early 18th century. The rise to power of the Dutch-born William III and Mary II in 1689 paved the way for revitalising the financial landscape of England and patterning it more after advanced Amsterdam.

18th century Japan

Japan's Dojima Rice Exchange is widely credited as the first futures exchange market.

19th century France

By the late 1800s, Gallic financiers had a term for contracts for future delivery: *négotiations àterme*. Derivative contracts largely became legally enforceable in the country in 1885.

19th century America

Of course, no mention of futures history is complete without a transatlantic connection. In many ways, the creation of the modern futures contract came full circle to those days in Mesopotamia: Futures as they are known today were born out of the need to secure grain supply in the US.

In the middle of the 19th century, Chicago was at the centre of a railroad empire. By 1848, farmers and dealers were converging here to traffic in grain at spot prices. Soon traders saw the necessity of commitments to exchange wheat and other grain for cash in the future. Thus, the Chicago Board of Trade (CBOT) emerged, listing in 1865 an 'exchange traded forward contract', by all accounts the first modern futures contract.

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