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## Efficiency tests in the French derivatives market

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### Abstract

The French derivatives market, the *Marché à Terme International de France (MATIF)* or the French International Futures and Options Exchange is one of the major derivatives markets in the world. The efficiency of four financial contracts traded on the MATIF-CAC40 Index Futures, ECU Bond Futures, National Bond Futures, and PIBOR 3-Month Futures are examined in this paper. Test results from serial correlations, unit root tests, and variance ratio tests provide overwhelming evidence that the random walk hypothesis cannot be rejected for these contracts. © 2000 Elsevier Science B.V. All rights reserved.

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### 1. Introduction

With over 70 million contracts traded in 1997, the *Marché à Terme International de France (MATIF)* in Paris is one of the major derivatives markets in

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the world and has attracted many foreign investors.<sup>1</sup> Anticipating the eventual realization of the European Monetary Union (EMU) and single currency, which has been named Euro from its previous name of European Currency Unit (ECU), the MATIF, now more than ever, is gearing toward internationalization by offering products and expanding trading that appeal to global investors. Examples of these efforts include the offering of ECU-denominated products and the GLOBEX-partnership with the Chicago Mercantile Exchange. As MATIF clearly states in its 1996 annual report, in the new financial environment, the battle for market share will be won not only by technical advances but also by the competitiveness of markets. From the investors' point of view, one of the important aspects regarding the latter is the issue of market efficiency.

Previous studies have sought to emphasize the importance of MATIF in global risk management strategies. For example, Geman and Schneeweis (1993, p. 18) mention that "MATIF ranks among the world's largest futures markets with a wide range of risk management instruments including commodity futures, the three-month PIBOR contract, the CAC40 stock index, the National and the ECU long-term contract". They go on to argue for using the National futures contract in global risk management strategies.

In a similar vein, Chow et al. (1996, p. 1695) state that "among major futures exchanges only MATIF offers a 24-hour non-interrupted trading cycle accommodating two distinct trading mechanisms – normal trading hours are conducted through an open-outcry system on the floor, while after-hours trading occurs through an automated continuous auction system on GLOBEX, with no trading recess between these two sessions".

Given both the popularity and the innovativeness exhibited by MATIF, a natural question to ask is related to the efficiency of the financial futures traded on it. Thus, the purpose of this paper is to conduct comprehensive efficiency tests on the returns of financial futures contracts traded on the MATIF. These tests are significant for two reasons. First, despite MATIF's global perspective, little research to date has been done to examine the efficiency of products traded on the market. Second, even among studies that test for efficiency in well-established markets, the evidence is mixed. By examining the MATIF, employing the refined variance estimator of serial correlations of Diebold (1986) and the variance ratio tests of Lo and MacKinlay (1988) that adjust for heteroscedasticity, further evidence on market efficiency is obtained that can shed additional light on the price behavior of assets.

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<sup>1</sup> In 1996, approximately 40% of MATIF's open interest was held by non-residents.

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