Government and Municipal Bond Market

Prices Stiffened as Result of Restrictions, but Market is Still Very Uncertain —Greater Winnipeg Water Bonds Sold—Quebec City Arranging Loan in New York—Many Municipalities Have Large Borrowing Programs to Complete

WHILE most bankers and brokers accept the restrictions placed on the importation of securities as being in the best interests of the country, and are conforming to the request of the finance minister, his action has been the object of keen criticism, and some brokers show a disposition to continue this class of business.

Local committees formed for the purpose of carrying out the agreement have issued specific requests to the financial institutions concerned. In Montreal, the committee, which is composed of H. B. Mackenzie, chairman, Edwin Hanson and Edgar M. Smith, representing the banks, bond dealers and stock brokers respectively, asked that firms and banks agree: (1) To decline any orders to sell securities not now held in Canada. (2) Not to handle or participate in foreign loans in Canada. (3) Not to handle or participate in the issue of securities in Canada for non-essential purposes.

Reasons for Minister's Action

Sir Henry Drayton explained his reasons in an interview with the Montreal "Gazette," while in Montreal over the week end discussing the situation there. Sir Henry said:—

"Owing to the fall in the value of the pound sterling on this side of the Atlantic a large quantity of Canadian securities held overseas have been dumped on the Canadian market. The securties sold are, for the most part, not direct government obligations, but many of them are guaranteed by the Dominion and provincial governments. These outstanding obligations, whose absorption or liquidation ought to be temporarily stopped, represent to a large extent the working capital of the country. They include the obligations of our municipalities, railways and industries. After extended conferences with bond dealers, stock brokers and bankers, it has been determined that the sale of the securities held overseas on the Canadian markets must be discouraged and, so far as possible, stopped. Effective steps for this purpose in the direction of the financial channels through which such transactions take place have been taken. This action is not taken through any compelling law, but is wholly induced by a commonsense recognition of the business requirements of the country. The purchase of these long-date obligations, in addition to taking essential capital out of the country, as settlements are made on New York still further depreciates the value of the Canadian dollar there and renders still more difficult trade with the Untied States and the discharge of our obligations in that market."

The following extract was quoted by Sir Henry from the "Financial News" of London, as being a favourable British viewpoint: "The action dictated by the needs of the moment is not short-sighted and should have no adverse influence in the future on Canadian issues. It is designed to protect Canada from any aggravation of the exchange situation with New York and to check speculation for exchange profits and retain money for home requirements."

Information Should be Made Known

W. L. McKinnon, of W. L. McKinnon & Company, made the following statement to the Toronto "Globe" on Monday: "The restrictions against the importation of securities are wise. The co-operation of the brokers is wise. But one small group of brokers should not know everything that is going on, when the balance of the brokers are kept in the dark, especially when all the brokers are supposed to co-operate."

F. J. James, of Nay & James, Regina, said in an interview on February 27:—

"Perhaps the minister of finance may be authorized by the government to exercise discretionary powers. Undoubtedly, English investors in Canadian securities will feel very strongly on the subject, as this embargo will, I should judge, practically close their market for the sale of bonds of Canadian municipalities, as very few securities of this character are marketed elsewhere.

"The drop in the prices of Canadian war loans, as announced on Monday last, to my mind, seems to indicate that Canada's finances need careful handling, and the task before Sir Henry Drayton is by no means a light one. Any man who can afford to hold his Victory bonds has as good an investment as he ever had, and, in cases where he has to sell, while no doubt it is disappointing to have to get rid of his bonds at a lower figure than he had to pay, the shrinkage is comparatively light in comparison with the depreciation in other securities.

"As far as foreign securities are concerned, there are, undoubtedly, many of these which might be left in the countries of origin for some time at least. It is only a short time ago since we read of a meeting in London, England, of the Grand Trunk shareholders, called for the purpose of obtaining their consent to an arrangement to be entered into with the Canadian government on the latter's terms. Some of the shareholders expressed themselves very strongly and, I imagine, there will be very little likelihood of any of them becoming investors in Canadian enterprises for some time at least.

"Financial newspapers of London will, probably, comment on Canada's action in connection with this embargo, and will score us heavily; and another reason will, probably, be advanced for not sending money to this country for investment. If it were possible, I should like to see some plan devised whereby English investors who purchased Canadian securities, believing that they would at all times have a free market, might receive a measure of consideration at the hands of our government.

"As previously indicated, I feel that it is somewhat early to pass judgment on the action of the government, and am looking forward to an official statement by the minister of finance. In the meantime, we can only assume that the action was taken in the interests of Canada as a whole."

Bond Market is Stronger

Although the action of the Dominion Government towards preventing the import of further amounts of securities produced some effect, the bond market can scarcely be said to be any stronger than it has been for some weeks past. It is well known that the supply cannot be entirely shut off, and a large number of dealers and brokers are opposed to any restrictions whatever. Municipalities are in the meantime waiting for a more dependable market before making new issues.

A statement by the Victory Loan special committee, having to do with the marketing of Victory bonds at the present time, was issued by Secretary R. A. Daly on March 3rd. Mr. Daly reports good progress in the marketing of bonds. His statement says:—

"In view of the discussion that has been taking place during the last ten days, following the reduction in price of Victory bonds, and the placing of the embargo on foreign securities entering Canada, it should be of interest to all holders of Victory bonds to know that since the above measures were put into effect the liquidation of Victory bonds has been very materially reduced. The demand for Victory bonds has correspondingly increased, with the result that during the above interval the committee's sales to the public have been substantially greater than their purchases from the public."

Municipalities which are contemplating borrowing to any extent are: Saskatoon, $993,000; Windsor, Ont., $1,200,000;