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THE GENERAL FINANCIAL SITUATION

Announcement was made this week of a scaling down of the prices at which the various issues of Victory Bonds may be bought and sold, the Special Committee, which was re-established a short time ago, to supervise trading in these securities. The explanation of the scaling down, which accompanied the announcement, may at first sight appear not particularly convincing. The move is said to be "owing to the decline in foreign exchange and the substantial rise in income return of high grade securities in consequence." The connection between decline in exchange and rise in income return of high grade securities is not at once obvious. The connection exists, nevertheless. As a result of the decline in foreign exchange, enormous amounts of Canadian securities, formerly held in British hands, have been sold here within recent months. That flood of securities has largely contributed to the absorption of available supplies of liquid capital for investment and carrying purposes, which absorption has recently been a notable feature of the local investment market. Such a movement can only have one result—a decline in the market value of securities. The decline has been for some week past in evidence in the case of standard Stock Exchange securities, which have been the subject of this liquidation, and the same effect is now naturally being felt in the bond market.

The movement will continue until, in due course, corrective influences develop. Corrective influences in this case, we believe, will come from the United States. With the present, or even a 10 per cent. premium on New York funds in Canada, securities of the Dominion are an extremely attractive buy from the point of view of the United States investor, particularly institutional and other wealthy investors, who can afford to re-invest here dividends or interest received in Canadian currency. The probabilities are that a considerable amount of investment from this direction will develop in the course of the current year, and this investment will be a valuable aid in stabilizing exchange. It will be very welcome, ultra-Imperialists notwithstanding, and if the movement attains any large dimen-

sions, as may be the case, will have an exceedingly useful effect in the further development of Canadian resources and in maintaining the prosperity of the country.

A further point in regard to the lowering in price of Victory Bonds may be noted. On the street, it is being said quite freely that there has been during the last few weeks very large realisations of these bonds. To what extent this gossip is founded on fact, we are not aware, but the lowering of the selling price of the last issue to 96 should serve as a check upon these realisations. In any case, it is evident enough that the Dominion has now become saturated with Government loans to such an extent as to render any further borrowing which can possibly be avoided, most undesirable. It is to be hoped that the Minister of Finance, in preparing his Budget estimates, will set his face, as a flint, against any unnecessary or unwise expenditures. Necessarily, he will not increase his popularity, or that of the Government, by so doing; but it is absolutely essential in Canada's best interests at the present time, that this course should be adopted, and evidence is accumulating that Sir Henry Drayton is in fact following this course.

Mr. T. B. Macaulay has been presenting again his thesis of Empire trade as the sovereign cure for the ills of exchange, and his publicity agent is good enough to say, that in his address, Mr. Macaulay "brought out many important factors which hitherto have been overlooked by the majority of those who have been studying the exchange question." Unfortunately, it is Mr. Macaulay who has overlooked the "many important factors," as we showed in this column a fortnight ago. If the rectification of the exchanges were merely a matter of putting the British Empire right, then rectification would be a considerably simpler matter than it is. The fact is that the development, even to a considerable extent, of inter-Empire trade would only play a part, and a comparatively minor part, in the rectification of the exchanges between London and this side of the Atlantic. The righting depends upon a multiplicity of international factors of which Mr. Macaulay apparently has no conception. His statements and enthusiasm are admirable and unexceptionable—so far as they go. But that is not very far.