The Chronicle

Insurance and Finance

ESTABLISHED 1881. PUBLISHED EVERY FRIDAY.

R. WILSON-SMITH, *Proprietor.*

GUARDIAN BUILDING, MONTREAL.

Annual Subscription, $2.00. Single Copy, 10 cents.

MONTREAL, FRIDAY, MAY 3, 1907.

MONEY MARKET PROSPECTS.

A very short while ago call loan rates in New York were above 7 p.c.; money was scarce and hard to get; and in the principal European markets as well, conditions were stringent and rates high. Before the end of April, Wall Street loans had fallen below 2 p.c., the banks of England, of Germany, and of the Netherlands, were reducing their official rates, and the period of acute monetary strain was becoming in many quarters merely a memory. There has been, however, no noticeable relaxation of the strain on the Canadian markets. Apparently we are not sharing in the relief gained by others. Naturally the question arises. Why?

The conundrum is worthy of being studied. To get within reach of the answer it is necessary to discover what it was that effected the change in the other markets—sudden and precipitous in the case of New York, more gradual in London and Berlin. Noticeably at work in the American metropolis were three distinct factors of importance. The first was the liquidation of speculative accounts. This proceeded in a drastic fashion and was accompanied by an abnormal drop in prices of securities. The effect was two-fold; the banks and lending institutions received back huge sums that they had loaned on the market, and at the same time, the bullish enthusiasm of the street was chilled, its fears excited, and a consequent reduction in the market's requirements for credits ensued. The second factor was the deposit of about thirty millions of government money in the banks through orders issued by Secretary Cortelyou. The third was the back-flow of currency from the interior to New York, which begins in January and lasts till sometime in April. Working in combination the three have been sufficient to change a position of stringency and uncertainty to one of extreme ease.

The altered situation in New York has had not a little to do in relieving Europe. The great banks over there were themselves under strain because of the activity in industry, trade and speculation prevailing in well-nigh all the civilized countries of the world. The extra demands thus thrown upon the banks had occasioned a fall in their reserves. But the thing that had most influence in causing the rises in the European bank rates was the situation in America. The governors and directors saw across the Atlantic a rampant spirit of speculation along with an unexampled expansion in all industries. To support this the American bankers had drawn large amounts of gold from Europe. What they had already taken could perhaps be spared; the anxious part was the uncertainty as to the ultimate total of the withdrawals for New York. Nobody knew how much more would be demanded. Then ensued the rate-raisings as measures of defense against the continuation of the demand. At once when the situation in America was corrected and the need for European assistance removed, the extra rates, put on in self-defense, could be taken off. But no such precipitous fall in money rates as that seen in New York takes place in the well-regulated foreign markets. The parties responsible know right well the evil effects that follow too sudden reversals of strained positions. Discount rates are therefore let down gradually ½ p.c. or 1 p.c. at a time.

The great New York bankers also knew well enough that too quick a drop in call rates was not desirable, but they were powerless to prevent it. The effect has been very marked. Huge amounts of capital employed in New York on Stock Exchange loans at the formerly attractive rates have been withdrawn—to the interior, to Europe, and home here to Canada. The New York banks have been obliged to take over these loans, with the result that in two weeks after the cheap money level was reached the Clearing House banks reported a loan increase of over $60,000,000, breaking previous records. The drawing home of capital by Europe is plainly seen in the rise in foreign exchange. A little while ago exchange at New York was at the gold import point. In a couple of weeks it has risen so much as to bring the question of gold exports into discussion. There is no doubt, in view of the condition of industry on this side the Atlantic, that it would have been better had it been possible to reduce money rates more gradually and thus to have kept a larger proportion of the European funds for financing the industrial needs, which are certain to be very large this summer and autumn unless, as some suppose, a trade reaction follows the fall in stocks.

Next, as to why Canada has experienced no relief. It should be remembered that our difficulties this year are of a somewhat peculiar nature. First of all, our expansion and progress have been record-