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THE GENERAL FINANCIAL SITUATION

The great event of the week, from the money market point of view, is the third Liberty Loan issued by the United States Government, the subscription period for which opens on April 6th, the anniversary of President Wilson's war declaration. Terms of the loan, as announced, came as a surprise to the financial markets in several respects. It was expected by many that the rate of interest would be 4½ per cent., corresponding with that paid by the United States Treasury on its last issues of short-term certificates of indebtedness. Consequently the 4¼ per cent. rate caused some disappointment; but it was offset by the unexpected reduction of the amount asked for. The prevailing impression had been that the loan would be for five billions or more, and considerable relief was experienced when it became known that the nominal amount was to be but three billions. Secretary McAdoo has, however, intimated that he will accept such amounts as may be oversubscribed, and thus before the transaction is completed, the American investment markets may be called upon to finance a flotation rising considerably beyond the $3,000,000,000 named in the prospectus.

With reference to the question of money market effects, it is to be observed that the banks have already provided a large part of the funds represented by the loan. During February and March at intervals of two weeks, the Treasury has been placing with the banks successive issues of $500,000,000 in short-date certificates of indebtedness. On completion of the loan payments these certificates will be liquidated—as a matter of fact a considerable portion of the certificates now outstanding will be turned into the Treasury in the form of loan subscriptions. In this way the payment of the loan instalments will have a tendency to ease the monetary situation at the centres. From the fact that the new Liberty bonds are not to be convertible into future war loans, the financial community reasons that the Washington authorities perhaps intended to try and peg the interest rate at the present level of 4¼ per cent.—an official explanation of the Government's action in omitting the conversion feature is that it (the privilege of conversion) caused the investment public to expect that each successive bond issue would bear interest at a higher rate than its predecessor. Remarking that the interest on future loans must clearly be left for the future to determine, the New York Evening Post points out that an attempt to peg the rate would imply very definite opinions at the Treasury as to the duration of the war and the course of the money markets.

Call loans in Wall Street have been ruling strong at around 5½ per cent. Time loans and commercial paper are unchanged at 6 per cent., with large demand and the supply not too plentiful. The last block of British Treasury bills placed in New York by Messrs. J. P. Morgan & Co., gave a yield of 6 per cent. It is said that the relatively higher rates paid in New York has caused some remittance of funds from London to this side of the Atlantic—the rate paid by the British Government on its Treasury bill borrowings in London was recently reduced to 3½ per cent.

Saturday's statement of clearing house banks in New York showed improvement of the reserve position. Loans decreased, $11,750,000; reserve in Federal Reserve Bank, increased $12,585,000; net demand deposits increased $40,236,000; and the final outcome was an increase of $6,433,000 in the net reserve, bringing it to $61,399,000.

In Canada, since the trading on the stock exchanges was placed under restrictions, it has been necessary in calculating the market value of money to take into account the rates of interest at which the provinces and leading cities issue their debentures. There has not been much business done in call loans excepting in case of loans based on the Victory bonds and other Dominion war bonds as collateral. These loans apparently are largely on the 6 per cent. basis. With reference to the loans and discounts of mercantile customers, the yields obtainable on high-class municipals and provincials has created a set of conditions in which 6 per cent. is considered an exceptionally low rate, and many of the best customers have now to pay a higher rate. The interest rate for municipals and provincial government bonds seems now to be fairly well established at from 6¼ to 6¾ per cent. This week a Montreal house is offering Province of Alberta bonds due 1925 on a yield basis of 6½. Some of the smaller western cities have been required to pay higher rates—Lethbridge bonds, for example, as recently offered gave investors 7⅛ per cent.

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For every dollar appropriated by municipalities for fire protection, fifty cents should be used for fire prevention.—J. Grove Smith.