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R. WILSON-SMITH, *Proprietor*.

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THE GENERAL FINANCIAL SITUATION.

Cables say that this week there was no American demand for gold while the South African shipments were being marketed on Monday. Exchange rates between London and New York did not favor a continuance of the gold movement to the latter centre. Holland took the greater part of the incoming metal—$3,000,000 out of a total of $3,500,000. The balance—$500,000—went to India. The Bank of England adheres to its 3 p.c. discount rate. In the London market rates for all maturities advanced. Possibly that is one reason for the change in the complexion of foreign exchange. Quotations are: money, 1¼ to 1½; short bills, 2 11-16p.c.; three months bills 2⅝ to 2 11-16. Bank of France rate was maintained at 3 p.c., that of the Imperial Bank of Germany at 4. In the Paris market discounts are 2 p.c.; and in Berlin the market is 3⅜.

In New York the tendency of the money market for the time being is towards ease. Call loans, 1½ to 1¾; 60 days, 3 p.c.; 90 days, 3½ p.c.; six months, 4½ to 4¾ p.c. This temporary softening is no doubt due to the large surplus reserves which the clearing house banks have accumulated. Saturday's bank statement disclosed another addition to the total in spite of an increase of $20,800,000 in the loan account. Gold imports and accessions from other sources produced, a cash gain of $11,600,000; and the gain in surplus was $2,943,000, making the total surplus $55,743,350. The trust companies and non-member state banks improved their position also. Their loans decreased $3,300,000, and this, with a cash decrease of $1,560,000, resulted in increasing their percentage of reserve to liability from 18.0 to 18.1.

It is hardly to be expected that the softening tendency of the New York money market will be other than temporary. Already the metropolitan bankers have begun to ship currency to their correspondents in the wheat growing districts. And by 1st September the outgo of cash on the account of crop movement will have reached an important volume. Also it appears that the gold movement from London is about ended; so the weekly building up of cash in that way will not likely be continued. Furthermore the altered complexion of the stock market since the Pearson-Farquhar securities were taken over is another factor making for hardening of rates. The market has been in technical shape for a rise or recovery. Those bear operators who sold stocks under the impression that they would be able to re-purchase them from a struggling and over-loaded syndicate have found that they must instead buy from a powerful coterie of bankers who need not sell unless the price is to their liking.

The combination of factors—cash outgo to the harvest fields, cessation of gold imports, and increase of stock market borrowing—promises to effect an important reduction in surplus reserves during the next three months. However, the surplus is very large; and unless the speculative borrowers begin to get too enthusiastic, no harm is likely to be done through exhausting it, or nearly exhausting it by the 1st January. As everybody knows, the cash returns from the interior in the latter part of January and through February.

Rates in Canada are unchanged; call loans are 5½ p.c. It is believed that the preparations for financing the Western harvest are practically completed. Owing to the crop damage it is probable enough that some of the milling and grain buying companies will not use the whole of the credits secured by them from their bankers. No doubt intimations to this effect had something to do in easing the tension in Montreal and Toronto. But it should be borne in mind also that the great slump in Wall Street quotations and the heavy liquidation of loans in that banking centre have had a great deal to do in making money cheap in Canada. We may imagine, if another state of affairs had existed in New York, that rates here in Canada would have been higher than they are at present, and the monetary tension, instead of decreasing, might have grown more acute. The slump in stock quotations and the liquidation of loans produced a slump in interest rates in New York. With call loans at 1½ p.c. there has been no inducement to send money to that centre to lend; and New York houses, with more funds, than they could employ at home, have been induced to send money here to lend at the higher rates prevailing.

With a sensible tightening of the strings in New York, such as may occur in the next two months, it will be interesting to observe whether our situation will become in any degree strained. A better feeling now prevails regarding the outcome of harvest operations in Western Canada. The results are not likely to be so bad as was supposed a month ago. Some of the districts which were believed to have been wholly burned out now report that a moderate yield will be secured.

Cobalt shares seem to be shaking off some of the gloomy atmosphere in which they have been involved for some time. Production is going ahead at Cobalt in a satisfactory manner; and probably the better class shares may eventually recover some of their losses.