Average amount of specie held during the month	17,020,615	16,995,368
Average Dominion notes held during the month	37,459,927	37,293,138
Greatest amount notes in circulation during month	61,339,132	62,226,126
Loans to directors or their firms	8,550,748	8,829,777

The figures do not appear to call for any lengthy comments. A number of banks end their financial year on 31st May, and several additions to the Rest have in consequence been made. The Merchants Bank of Canada has added $200,000, the Union Bank of Canada $100,000, the Bank of Hamilton $135,000, the Traders Bank of Canada $400,000 (of which $300,000 was derived from premiums on new stock), which, with one or two additions of lesser amounts, make a total increase of $954,000, thus bringing the combined reserve funds of all the banks to $55,862,330, or 68 per cent. of the total paid-up capital. In May, 1904, the total reserve fund was $52,309,458, or 66 per cent. of a paid-up capital of $78,801,319, while in May, 1903, it stood at $47,608,280, being 62 per cent. on a capital of $75,979,565.

Notes in circulation were reduced during the month by $1,805,000, rather an unusual feature. As a rule, circulation increases slightly at this time of the year, but the increase is never very large, while a small decrease is occasionally shown. The present decrease is, however, larger than in any recent year, and is pretty well divided amongst the banks generally.

Deposits this month make a better showing than they did in April. Deposits in Canada have increased by $5,583,000, and outside Canada by $3,720,000, a total of $9,303,000. Almost the whole of the increase outside Canada is in the deposits held by the Bank of Montreal, which have increased from $18,659,000 to $22,154,000. The total increase in April was some $2,500,000, or a total growth for the two months of $11,803,000. In 1904 the increase in May was $14,545,000, but there was a reduction in April of $5,084,000, leaving a net increase for the two months of $9,461,000.

Amounts due to banks outside Canada have increased by about $1,600,000, while sundry liabilities show a reduction of $1,428,000. Total liabilities have increased by $7,781,000, as against an increase in May, 1904, of $14,851,000.

On the assets side there are few changes to note. Assets in the shape of cash, bank balances, securities, call loans, etc., are, in the aggregate, practically unchanged, the total being $262,568,000, as against $261,157,000 a month ago. Call and short loans outside Canada, however, have been reduced by some $4,250,000, about $2,000,000 of this being in the loans of the Bank of British North America and $750,000 in those of the Merchants Bank of Canada.

Current loans in Canada have increased by $5,800,000, thus continuing the movement to which we drew attention last month. In May last year, current loans were stationary and the total increase for the two months of April and May was $5,644,000, as compared with $14,854,000 for the same two months in 1905. In May last year the banks were able to show readily convertible assets of the same amount as in March; this year there is a reduction of $4,400,000 from the March figures. There is apparently a tendency on the part of three or four of the smaller banks to yield to the temptation to increase their advances, and to allow their holdings of cash and other available resources to fall below the level which a conservative banker would consider it judicious to hold. The changes from the previous month are, in one or two cases, quite marked. It is to be hoped that by the end of June an improvement will be shown.

While it cannot as yet be said that there are any distinct indications of "tight money" in the near future, it is becoming more and more evident that money will be no drug, and that the borrower who is likely to need an increased credit during the next few months will do well to make his arrangements in good time.

May is the month in which a number of banks close their books for the year, and their annual reports are awaited with a good deal of interest. Speaking broadly, it may be said that the reports which have appeared indicate that, on the whole, the profit earning powers of the banks have been well maintained during the past twelve months. In some cases slightly reduced earnings are shown, but it may be said with confidence that, despite the slackening in business activity which was experienced in 1904, the prosperity of the country shows no signs of impairment. Crop prospects were never better, immigration both in quality and quantity is fully up to expectations, and the development of the West is proceeding with great rapidity. If all goes well, 1905 should be a record year for Canada.

OUR RELATIONS WITH JAPAN.

Until the year 1894, Canada was included in the old treaty, concluded between Japan and Great Britain some fifty years ago, but in the revision which was made in 1894 between the two nations a special clause, as follows, was inserted in its Article XIX. at the request of Great Britain:

"The stipulations of the present treaty shall be applicable so far as the laws permit, to all the colonies and foreign possessions of Her Britannic Majesty, excepting to those hereinafter named, that is to say, except to, India, the Dominion of Canada, Newfoundland, the Cape, Natal, etc., etc."

The article further says: "Provided always that the stipulations of the present treaty shall be made applicable to any of the above-named colonies or foreign possessions, on whose behalf notice to that effect shall have been given to the Japanese Government by Her Britannic Majesty's representative at Tokio within two years from the date of the exchange of ratifications of the present treaty."

The Canadian Government was notified in due time, as above stated, to signify her wish whether to become a party to the treaty or not, but the result was in the negative, on the ground that Canada had been making it her national policy not to join any treaty between Great Britain and foreign countries, so long as it had continued the Most Favored Nation clause in the customs tariffs. Japan is, however, bound by the treaty stipulations with Great Britain to observe this special clause, until the former gains her power and right to abrogate the existing treaty in 1910.

The so-called Most Favored Nation clause in the Anglo-Japanese treaty is in fact most disadvantageous to Japan, as she is placed under obligations neither to extend a certain preferential term to a nation nor to obtain a reciprocal term from another country, as