

The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1861

PUBLISHED EVERY FRIDAY

Vol. XXXV. No. 25

MONTREAL, JUNE 18, 1915.

Single Copy 10c.
Annual Subscription, \$5.00

FOREIGN EXCHANGE.

Foreign exchange, that most technical of financial subjects, is becoming a topic of the daily conversation of the man in the street. The sensational decline this week to a new low record for sterling exchange in New York to below \$4.77 has focussed attention upon the subject. The extent of this decline and the seriousness of it may be gauged from the fact that the lowest possible rate in normal times is around \$4.84. That is to say, in very elementary fashion, that those having to make remittances to London this week could purchase the English pound sterling, which for generations has been the world's medium for the settlement of foreign trade transactions, for seven or eight cents less than in normal times, if remitting from New York. If remitting from Montreal, the saving would be somewhat less but still considerable. What a difference of this degree means in the daily transactions of trade and commerce involving huge amounts of funds can be readily appreciated.

* * * *

The primary causes of the present condition of affairs are now well understood. The "balance of trade" has swung heavily in favor of this side of the Atlantic—particularly of the United States—owing to heavy agricultural and other exports to Europe at high prices, and Europe's inevitably diminished exports of goods to this side the Atlantic. More than that, London is now making payments not only for Great Britain's war purchases here, but also for those of the Allies who are under a severe financial strain, and these payments are no longer offset to the customary extent by the remittances from this side necessary to meet the expenditures of American tourists and residents in Europe. Further, it is to be remembered that the peak of the export movement of war munitions and supplies has been yet by no means reached. That will perhaps not come before the late summer.

It is generally agreed that sterling exchange has not yet reached its lowest point, that the *debacle* this week is merely the precursor of more sensational movements, which will make the English pound sterling purchaseable on this side the Atlantic for an amount in dollar currency that under ordinary circumstances would not be dreamed of. In New York the opinion has been expressed that even before the end of the month a level of \$4.50 will have been reached, while the head of the foreign exchange department of one of the great New York banks is authority for the statement that sterling exchange may fall ultimately as low as \$4.25 in the pound. While it is agreed among the most influential bankers that there are three ways of stemming the downward movement, it is also held that there is absolutely no way of stopping it, unless that way be the end of the war. Further heavy shipments of gold in addition to those already made to the United States—which have exceeded \$102,000,000 since the opening of the year—offer one means of stemming the decline. Sale of American securities held in England and France, necessitating large remittances from New York, offers another means. A third means offered is the establishment of a British credit in the United States, by means of a formal loan or a private banking operation.

* * * *

To what extent either or all of these palliatives will be employed in the early future remains to be seen. It is significant, however, that those most familiar with British finance state positively that no negotiations are under way for the early establishment of a credit in the United States. In England, the view is apparently taken that any rates of interest which could be offered on this side the Atlantic would not be attractive. In any case, the outcome of the situation at present is most obscure.