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THE GENERAL FINANCIAL SITUATION.

After the lapse of two weeks the effects of the 3 per cent. London bank rate are more clearly traceable. Thanks to the set of conditions created by it, the Bank of England was able to capture the whole of the $3,000,000 gold arrival from the Transvaal mines on Monday of this week. Exchange between London and Paris has been more favourable to the British capital; and sterling exchange at New York is displaying a marked tendency in direction of gold exports to London.

The open market in London does not differ very much from last week. Call money is a shade firmer at 2½, while both short bills and three months' bills are about the same—the former at 2¾ and the latter at 2 11-16 to 2¾.

Across the channel at Paris a substantial fall has occurred in the open market official quotation. That stands now at 1 15-16 as compared with the Bank of France's 3. At the German capital, too, the market rate has undergone a considerable decline, standing at 2⅛ as against last week's 2½. The Bank of Germany still quotes 4 p.c. as its official rate. Doubtless the successful flotation of Russia's big loan has had much to do with the easing up of money on the continent. Next in order to happen will be relaxation at London.

Locally, in Montreal and Toronto, call loans are unchanged at 4 to 4½ per cent. During the week New York has progressed further towards ease. Call money ranges from 1½ to 1¾, with the bulk of the loans commanding the lower figure. This is ¼ p.c. lower than last week. Time money also is distinctly cheaper for all the maturities. 60 days, 2¼; 90 days 2½ to 2¾; six months 3 p.c.

Last Saturday the Clearing House banks increased their surplus some $5,500,000, chiefly through the gain of $7,200,000 in cash. This does not indicate that the receipts from the interior fell off to the extent of ten or eleven millions. In the course of the week the banks made large payments to the Treasury on account of the withdrawal of government deposits in national banks.

The loan account practically balanced with the previous week—the decrease being only $300,000. Surplus stands at $32,922,275 which is high for the season of the year. This current week the trust companies must add some $15,000,000 of cash to their reserves or reduce their liabilities. So it is not to be expected that the associated banks will be able to report any material addition to their cash holdings. Financial experts are therefore expecting that when to-morrow's statement appears it will show a considerable re-shifting of loans from trust companies to banks.

Then, with the trust company reserves and the government withdrawal of deposits duly provided for, there will remain the question of gold exports to be dealt with by the New York money market. There is every likelihood that by maintaining the 3 per cent. rate the Bank of England can speedily attract a great deal of gold to London. As remarked in the foregoing, both Paris and Berlin are tending to easy money. In both those centres interest rates in the market are lower than at London. As New York is however the international market in which interest rates are farthest below London's level, so the demand for exchange on London is likely to be strongest there, and it may result in a considerable outgo of gold. Already some shipments have been arranged to Buenos Ayres for London's account and London is evidently preparing to throw the greater part of the Argentine demand for gold on to New York. A little later it is just possible that shipments direct to London may be negotiated, providing, of course, the disparity between money quotations remains as wide as it is at present. No difficulty is anticipated at the American metropolis in meeting all these demands for cash. The supply of funds gathered there and awaiting investment is described as "vast" or "enormous." The stream of investment is converging on the bond market with the result that every day sees a very large total of sales put through. Investment houses are complaining that the supply of suitable bonds is showing signs of running short.

To a considerable extent the great surplus of investment capital is due to the trade set-back. When industry and trade do set out to release capital, after a first-class panic such as that of 1907, they do so on a tremendous scale.

Something of the same plethora of available cash exists in the two Canadian centres, and the demand for good stocks and bonds has been growing stronger and stronger. Loanable funds of banks and other institutions also have been steadily growing more plentiful. It is said, too, that a number of good Canadian securities, traded in on our home markets, have latterly been pretty