FOREIGN EXCHANGE FLUCTUATIONS

Western Canada May Lose $6,000,000 on Crop as Result of Low Exchange, But Higher Crop Prices Will Compensate

The foreign exchange chart, which *The Monetary Times* is able to include in the current issue, was prepared by Mr. F. L. Appleby and Mr. W. J. Little, of the foreign exchange department of the Union Bank of Canada, Toronto. It is copyright by those gentlemen, and reflects great credit upon their efforts, the chart being one of the most valuable ever published. It shows the course of foreign exchange from July 1st, 1914, a month prior to the outbreak of war, to June 30th, 1915. The violent fluctuations in international exchange may be seen at a glance. When wars alarms were heard first at the end of July, it made a rapid rise. From August 3rd to August 6th, 1914, there was an extended bank holiday in London, and as August 1st and 2nd fell on Saturday and Sunday, for all practical purposes they may be included. Consequently, there was no trading from August 1st to August 6th, inclusive. From August 7th to the 13th, inclusive, only small amounts were transacted, violent fluctuations in the rate occurring between each sale made on the same day.

The cable transfer rate has been inserted in the chart for the purpose of showing the unusually wide margins sometimes existing between demand and cable. The causes of this are (a) a pressing need for "spot" sterling combined with heavy offerings of commercial paper, and (b) fear of lower rates in the immediate future.

Exchange Against Canada.

Exchange is decidedly against Canada as between us and New York. One reason for this, as pointed out recently by finance minister White, is that whereas formerly our borrowings in London were adequate to liquidate the interest payments upon our British indebtedness (amounting to $140,000,000 a year), we now pay part of this amount either in commodities or in exchange to the United States, because of Great Britain's unfavorable trade balance with the United States. In other words, we pay the United States what we owe Great Britain, and in this way liquidate pro tanto Great Britain's indebtedness to the United States. The result is that exchange with the United States is unfavorable to Canada. All this is the inevitable result of the war and of the immense purchases of food products, supplies and munitions by Europe from the United States.

What the West May Lose.

In six weeks, since June 30th, the last date shown on the chart, the price of demand sterling has fallen from 4.80 to 4.76, and there is little hope of higher rates while the war lasts. *The Monetary Times* is inclined to think that before October sterling cheques will be worth only 4.72.

The grain exporter who has been accustomed to receiving about 4.85 per £1 for his drafts will consequently be worse off to the extent of .13 cents per £1 this year, which, on estimated shipments of $200,000,000 worth, would be equivalent to approximately a $6,000,000 loss in exchange. This, however, is more than offset by the enhanced value of the grain, and the farmer will still receive far better prices than he has had for many years.

Here is a lucid explanation given by a writer in the Wall Street Journal of the meaning of the statement that the dollar commands a premium of 2 per cent. over the British currency; or vice versa, that sterling will exchange for dollars only at a discount of 2 per cent. These figures are taken merely as examples.

How Exchange Works.

A cheque on a New York bank, which is an order to pay a specified amount of gold at sight, will buy or exchange for a similar order on a first-class London bank yielding an additional 2 per cent. of gold. For example, a cheque on a New York bank for $4.76½ is its authority to pay 110.6433 grains of gold, as the weight of a dollar is 23.22 grains of gold. A cheque on a London bank for £1 is its authority to pay 113.001 grains of gold, as the weight of the pound sterling is 113.001 grains.

Accordingly, when sterling exchange, or cheques on London banks, are quoted in New York at $4.76½ in the pound sterling, the meaning is that the New York bank's instruction to pay 110.6433 grains of gold in New York is exchangeable for the London bank's instruction to pay 113.001 grains of gold in London. In terms of American currency sterling is under those circumstances at a discount of 2.08 per cent.; and conversely in terms of the British currency the dollar is at a premium of 2.13 per cent. If both orders to pay exchange for each other on a par, that is, for equal amounts of gold, a London cheque for £1 would buy an American cheque for $4.8665, since one pound sterling contains as much gold as 4.8665 gold dollars do (113.001 divided by 23.22 = 4.8665). For this reason $4.8665 is called the par of exchange between sterling and the American dollar.

Here is an Illustration.

To take a concrete illustration, suppose an American cotton exporter sells to a British merchant a cargo of cotton and is paid by a cheque on a London bank for £10,000. He, therefore, receives the bank's authority to pay 1,130,010 grains of gold in London. As he naturally desires to convert or exchange the London funds for American currency, he sells the sterling cheque at the rate of $4.76½ in the pound sterling, and receives a cheque on a New York bank for $47,650, or its authority to pay 1,106,433 grains of gold. He, therefore, loses on the exchange the difference of 23,577 grains, or 2.08 per cent. On the other hand, if in accordance with the terms of sale the American exporter is paid in American currency, the British merchant is compelled to obtain with his London bank's promise to pay 1,130,010 grains of gold a New York bank's promise to pay 1,106,433 grains of the metal. He thereby suffers the loss of 2.08 per cent.

In like manner, in the case of an American importer and a British exporter of goods, the former would gain 2.13 per cent. if he remitted with a London draft, because his 1,106,433 grains of gold in New York would give him 1,130.010 grains in London. Conversely, the English exporter would gain 23,577 grains, or 2.13 per cent., if he received payment in a New York cheque and exchanged it for London funds.

Sterling Exchange Down to 4.72.

Since the above article went to press, sterling exchange has dropped to 4.72. This low record would be reached, it was stated above, at latest before October.

BIG CANADIAN NORTHERN LOAN FLOATED

This morning a loan of $11,500,000 Canadian Northern Railway 2-year 5 per cent. notes was successfully made in New York by Messrs. Wm. A. Read and Company, New York and the Dominion Securities Corporation, Toronto. The issue was a complete success, being well oversubscribed. The notes were offered to the public on about a 5¾ per cent. basis. The present issue of notes is secured by a deposit of about $15,333,000 Canadian Northern 4 per cent. 20-year bonds at 75, guaranteed by the Dominion of Canada. There is, therefore, about $133 security for every $100 of the notes.

This is an excellent stroke of business and reflects credit upon the financial houses responsible for the issue.

INDUSTRIAL ACTIVITY AT REGINA

Definite arrangements have now been made, so *The Monetary Times* is informed by Mr. Norman A. Ruse, commissioner, Regina, whereby the Robert Simpson Company, of Toronto, will erect a large warehouse at Regina for the purpose of handling their business in western Canada. The city has received a $100,000 bond from the company as a guarantee of good faith. Since entering into the arrangement with the city, the company has decided to erect a much larger building than originally planned. It will be eight stories in height and will be of the latest reinforced concrete type. The building will cover an area of 250 feet by 100 feet and will be located on Broad Street in the industrial district. The company will employ at least 300 hands within one year of the time of signing the agreement.

The Seed Grain Grader Company, Limited, with an authorized capital of $25,000 will manufacture mills for the selection of high class seed grain. These mills will be sold to farmers at low prices.