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FOREIGN EXCHANGE FLUCTUATIONS

Following the disappearance of the discount on New York funds, which was so much in evidence here from the opening of the war until the end of October, there has been an abnormal premium on New York drafts in this market. From the discount of $\frac{3}{4}$ p.c. a short time ago, the quotations moved steadily upwards until $\frac{5}{8}$ premium was quoted. This sharp reversal is quite remarkable and there is considerable speculation as to the cause. It should be noted that the premium of $\frac{5}{8}$ p.c. is quite as abnormal as the discount of $\frac{5}{8}$ or $\frac{3}{4}$. The quotations could not have ranged so far on either side of the gold point but for the virtual suspension of specie payments in force on both sides of the international boundary. If we had been able to get gold on demand for the American and sterling obligations remitted by us to New York, the discount on American drafts could not have gone beyond $\frac{5}{64}$ or $\frac{3}{32}$ p.c.; and conversely, if our banks had been able to convert their Dominion notes with facility into gold

for export, the premium on New York funds could not have risen beyond $\frac{3}{32}$ p.c.

IMPORTANT INTERESTS PENALISED.

It is satisfactory to note that by the middle of the present week the premium had fallen to $\frac{1}{8}$ p.c. between banks; and it is to be hoped that it will not rise very much beyond that level. An abnormally high premium on New York funds in our case denotes that Canada is being drained of capital. Many important interests here are severely penalized when exchange rates are too high. In the first place abnormally high rates mean that our importers of merchandise must pay high for the exchange they require to settle for goods purchased abroad. Thus the selling prices in Canada for these goods must be lifted a notch or two to recompense the importer for the special outlay. Also the high exchange rates penalize the Dominion Government, the Provincial governments, the municipalities, the railways, and numerous other corporations having large amounts to remit to London in the form of interest and dividends.

SEARCH FOR STERLING EXCHANGE.

It is believed that the reversal of the exchange rates in the present instance has been caused largely by the extensive enquiry in New York by Canadian interests in search of sterling exchange. Sterling quotations in New York have held around 4.90 for demand; and in view of the high quotations of a few weeks ago the present level looks satisfactory enough to parties under the necessity of remitting money to London.

THE CROP MOVEMENT.

Business conditions in Canada on the whole are satisfactory. The banks are financing the crop movement quite as well as could be expected. It is said that exporters of grain in the United States are experiencing difficulty in finding enough vessels to transport grain to Europe, and this has had some tendency to depress wheat prices. With reference particularly to the financing of our crops the action of the Finance Department in omitting to show the amount of securities held against issues of Dominion notes as at September 30th, 1914, is taken as indicating that the banks have availed themselves rather extensively of the permission recently granted for borrowing on those securities.

SHORTAGE IN SPECIE RESERVE.

It is to be noted that the specie reserve held by the Government against its notes as at the end of September was nearly \$10,000,000 short of the reserve requirement as modified early in August. Presumably the advances to the banks will be largely cleared off next spring when shipment to Europe of grain stored during the winter proceeds on a large scale. Then we may expect that the Dominion note issues will be back again to a normal basis.