THE BREAK-DOWN IN EXCHANGE.

In enumerating the sensational developments following the unexpected outbreak of war in Europe, the break-down of international exchange must be taken as one of first rate importance. This particular development has occasioned great inconvenience and loss to business men and others in every one of the leading countries of the world. Its effects have been severely felt by Canada and all the lesser nations. So it will be interesting to discuss the recent happenings in the exchange market with reference particularly to the happenings at New York and their bearing on our affairs.

It is understood that the derangement of the exchange market resulted primarily from the operation of several important factors—the action of bankers in hastily recalling their balances and credits lying in foreign countries, sales of securities on a vast scale by holders in all European countries, and partial suspension of shipments of produce and other merchandise from America to Europe.

The New York stock market remained open for a day or two after London closed, and in that period all the European selling of American securities converged on New York. For the great volume of securities sold in New York in the last couple of weeks the New York bankers, of course, would be required to remit exchange on London, Paris or Berlin. At the same time the British and Continental European bankers were recalling balances and loans, thus creating further abnormal demand for exchange. Even when the cargoes of American merchandise were going forward as usual they did not suffice to furnish anywhere near the quantity of exchange required for the two purposes just mentioned.

With the closing of the New York Stock Exchange on July 31st, the wholesale selling of securities to America by Europe ceased temporarily; but the action of the governors of the Exchange could not stop the continued recall of large blocks of European capital which was in such form as to permit the owners to realize it without recourse to the stock exchanges. The huge recall of funds went on, and on the outbreak of the war, with the partial cessation of merchandise shipments to Europe, the supply of exchange simply vanished—the exchange market was left with demand abnormally in evidence and practically no supply. Under the circumstances the quotations quickly rose to unheard of figures.

What happened to the exchange market in New York will be better understood if we review the position of our own chartered banks, the New York agencies of which are heavy dealers in exchange at all times. A glance at recent bank returns shows that for several months past our banks have been drawing heavily on London (demand, sixty and ninety day bills), in order to supply the requirements of their customers who had bills or obligations to meet in Europe. In recent returns the outstanding bills on London exceeded the credit balances carried by our banks at that centre by a considerable amount. The London bankers accepted these bills, however, on the strength of the consols, Dominion Government bonds, American railway and other good international bonds held by them as security. Then came the sudden outbreak of the war and the banks were under the necessity of remitting funds to London to provide for maturing bills which had been accepted on their behalf by London correspondents. So, our banks, in common with the big American banks and financial houses, many of which were in the same position, were obliged to go into the market and bid for the meagre supplies of exchange that were available.

Under certain circumstances it might be the case that exchange on Europe would be very scarce for an indefinite period. For example, if it should turn out that supremacy on the seas, particularly on the Atlantic, is in doubt, in other words, if the British navy should not be able to demonstrate decisively almost at once that it can contain the Kaiser's squadrons, shippers and vessel owners in North and South America will fear to embark cargoes of grain, provisions, cotton, horses, cattle, etc., for Europe—the risk of capture would perhaps be too great.

But we all earnestly hope that the superiority of the British navy will be quickly demonstrated, and that it will be patent to shippers and steamship lines that cargoes may be sent to the British Isles or to France with fairly good chances of getting to their destinations unmolested. There is good reason for expecting that that will be the actual state of affairs. If so the prices which the British, French, and neutral nations pay for American grain, etc., will not rise to such abnormal heights. From the producers' point of view the prices are likely to be eminently satisfactory even with the situation on the high seas favorable to the Triple Entente.

Thus the supply of exchange will be largely increased as soon as the commercial and shipping world has time to adjust itself to the new conditions. With regard to the question of exchange, the United States wheat crop of 930,000,000 bushels is one of the outstanding points. Given a satisfactory situation on the seas, that wheat crop is bound to provide the basis of a large amount of bills on London; and the requisite machinery for financing the bills inevitably be provided as soon as the bankers in Anglo-Saxondom have had time to get their breath so to speak. Also our own products—wheat, oats, cheese, butter, hay, horses, cattle, etc.—will necessarily pass out in abnormally large quantities. Again, there will be shipments of cotton, meat stuffs, etc., from the United States, and these also will provide exchange.

On the other hand after the war has been in progress a couple of months the panicky feeling in