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THE GENERAL FINANCIAL SITUATION

The victories won by the Allies in France continue to exert a favorable effect upon the financial markets in America and in London and Paris. They have had to take cognizance of the fact that the military situation has undergone a great transformation in the course of a short two weeks. With the launching of Foch's great counter offensive the war has taken on an entirely new aspect. Instead of waiting passively for the Germans to strike when it became convenient for them to do so, the Allies, temporarily at least, have taken the initiative, and as a result the German high command have been hard put to it to save the army of their crown prince from disaster. In the recent operations it appears that the Allies out-generalled and out-fought the enemy; and while it is not yet by any means clear that we are in sight of a decisive victory, it is quite plain to all that considering their great losses of men and material and the disorganization of their units and plans, the Germans will not be in condition to undertake another of their gigantic offensives for several months. . By that time the number of Americans in France will have so increased as to make it practically impossible for the Germans to achieve anything from an offensive on a large scale. Hence the observing financiers and business men have arrived at the conclusion that the crisis of the war is past. The enemy is still strong; he is still capable of striking heavily. but Paris is now definitely out of danger and there is no chance of the Germans driving a wedge between the British in the north and the French and Americans in the south. From the financial point of view that is a most important consideration. It means relief from vague fears of disasters or calamities that would set back the Allied plans for months and prolong by so much the great strain under which the financial community labors in regard to flotation of successive new war loans, steady and rapid increase of taxation, governmental interference with the regular course of trade, etc., etc.

The securities markets in New York responded to the new state of affairs rather more enthusiastically than did our own markets. The reason is well understood here. The American money markets, though tight, are not quite so closely held against loans for speculative purposes. It would be difficult to get loans from the banks here for the purpose of buying stocks extensively on margin—as the funds of the banks are largely taken up by the special credits to the Dominion Government. However, if the Allied operations result in further great successes, we may reasonably expect that our markets will eventually make a satisfactory response.

Money rates here are unchanged, and apparently the situation as regards the discounting of commercial paper is satisfactory. Bank rate in London holds at 5 per cent. In the open market call money is 2¾ per cent.; and the discount rate applying to both short and three months' bills, 3 17-32 per cent.

The money market at New York is very firm —call loans have held at 6 per cent. Time loans too have been strong at 6 per cent. for all maturities. Six per cent. is the rate quoted also for prime mercantile paper. Dispatches from the American centre intimate that the call money market was subject at times to spasms of demand, which but for the action of the official Money Committee in putting out funds at critical times, would have caused a rise above the 6 per cent. level. Where lenders considered that there was too much industrial collateral, the rate frequently has been fixed at 6½ per cent. Thus it will be seen that money rates as quoted in New York are regulated to a certain extent—the Money Pool takes action whenever a rise above 6 per cent is threatened. So some New York authorities consider that these quoted rates do not reflect the real situation of the market. They say that the state of affairs is portrayed more faithfully by the rates of interest paid by leading American industrial concerns in connection with short term notes recently issued by them. In case of these issues, investors secured yields ranging from 7 to above 7¾ per cent; and it may be assumed that the cost of the money to the issuing corporations was higher than the figures quoted.

Clearing house banks in New York were able to show in their Saturday statement a gain of $18,000,000 in excess reserves. Heavy decreases in loans and deposits were largely responsible for the improvement of position. Loans decreased $178,000,000; cash in vaults decreased $5,800,000; reserves in the Federal Reserve Bank increased $4,400,000; net demand deposits decreased $104,000,000. The outstanding feature of the statement of the Federal Reserve Bank of New York was a gain of $117,000,000 in gold reserve.

(Continued on Page 781)