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THE GENERAL FINANCIAL SITUATION.

India secured $1,000,000 of the South African gold arriving in London on Monday. Owing to the absence of a demand from the Continent of Europe the balance of $3,500,000 went to the Bank of England. At their Thursday meeting the directors of the English institution continued the 3 p.c. rate. Call money 2 to 2½; short bills, 3 1-16 to 3⅛ p.c.; three months' bills 3⅛ to 3¼. Across the channel the Bank of France continues to quote 3 p.c. as its official rate and the Bank of Germany quotes 4 p.c. The Paris market is 2 p.c., that at Berlin 3½.

In New York the tendency has been quite noticeably in the direction of harder money. Call loans are 1¾ to 2 p.c. with most of the business at 1¾. Sixty day loans, 3¾; 90 days 4 to 4¼; six months, 4¾ to 5. The Saturday bank statement revealed a loss of surplus amounting to $1,600,000 caused mainly by a cash drain of $2,450,000. The loan account remained nearly unchanged—the increase being but half a million. After this reduction the surplus stands at $49,046,950. In the current week the cash drain has been more strongly in evidence. Bankers in the interior of the United States are now actively calling for shipments of currency for crop moving and there has been quite a movement of gold from New York to Montreal. The northward movement represents, of course, recall by the Canadian banks of foreign balances and loans. The movement to the interior of the States also represents to a large extent recall by interior bankers of balances and loans in New York owned by them. But news dispatches from the American metropolis state that each day sees a considerable amount of borrowing or re-discounting in New York by interior banks. It appears that this re-discounting is going on more extensively than is usual for the season of the year. It indicates rather pointedly that the interior bankers are well loaned up. Possibly the liquidation of loans and commitments supposed to have taken place during the summer was not as extensive as was commonly believed. And if the banks are borrowing heavily from New York at the outset of the harvest movement, it may be that before the crops are handled there will be seen something of a rise in interest rates in the neighbouring country.

It is now known that the clearing house banks in New York were obliged to take over a goodly part of the $28,000,000 of loans called by the Canadian banks during July. Some of the market critics say that our banks have been calling further their New York loans during August, and this with the shipments of gold to Montreal has not been relished exactly by the financiers in the big centre. However, it may be that the dispatches are in error in stating that important calling of Canadian loans proceeded in August. In July some part of the funds derived from calls were left on deposit with New York banks. It may be that the gold shipments of the present week and last week represented transfer of these balances rather than of funds derived from fresh calling of loans.

With reference to the question as to how much gold will move our way it is to be observed that New York exchanges still rule at a heavy discount in Montreal and Toronto. It is supposed that the main underlying cause for the transfer of the funds to this country is the desire of the banks to provide, at their Canadian headquarters, the wherewithal for meeting adverse balances at the Clearing House which they expect to result upon their making certain loans to their Canadian borrowers. These loans have to do with the industrial activity as well as the special transaction of crop moving. When a bank obligates itself to make heavy advances of this kind it is usually most convenient to draw the funds from New York as that course does not have any tendency to upset local conditions; and at the present time loans and balances in New York command low rates of interest. That increases the inducement to realize them.

No change has occurred in the quoted rates for call and time funds in Montreal and Toronto. Five and a half continues to be the official rate for call loans. It is hardly expected that conditions will undergo material change in the immediate future. The funds recalled from New York in conjunction with the prospective expansion of the bank note issues should provide the means for making the extensive commercial loans referred to above and for shipping currency to the wheat fields.

It is likely enough that the total of bank note currency will reach a new high record this fall. If it does, it will not be because of the dimensions of the wheat crop, but because of the fact that the level from which the fall expansion starts is considerably higher than in previous years. Whether there will be a general recourse to the extra issue rights remains to be seen. A bank that is hard up or which can charge high rates of discount may find the excess issues profitable under a 5 p.c. tax; but it seems probable that the stronger banks using the excess notes last year did so as a duty rather than as a means of profit making.