The Chronicle

Banking Insurance and Finance

ESTABLISHED 1881. PUBLISHED EVERY FRIDAY.

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10 ST. JOHN STREET, MONTREAL.

Annual Subscription, $3.00. Single Copy, 10 cents.

MONTREAL, FRIDAY, JUNE 11, 1915.

FINANCE OF THE WEEK.

The main features of the war situation this week bearing upon finance have been the developments arising from the diplomatic tension between the United States and Germany. Judging from the cables, the London financiers are not very anxious that the United States should be drawn into the present conflict. One argument put forward from that quarter is that if U. S. exports to the Allies could be stopped as a consequence of a diplomatic rupture with Berlin, which seems to be thought in London might happen in case of panicky conditions following a breach, the purpose of the German Government would be achieved. Conservative banking quarters in New York appear to hold the view that the active intervention of the United States is unlikely, but that differences will eventually be settled. In the meantime, the eccentric conduct of Mr. Bryan leaves the world amazed. English bankers informally are still discussing the possibility of American purchases of the next English war loan, which will probably be issued in September or October. It seems to be agreed, however, that British interest rates will prove unattractive to the States.

EFFECT OF CROP PROSPECTS.

Anticipations of favorable crops continue to be a factor tending towards hopefulness on the part of business men, as noted in more detail on another page. One of the incidental benefits derived from a bumper crop this fall is pointed out by a correspondent, in the restoration of the exchanges between Montreal and New York to a normal basis. At present the high premium on New York funds is causing great dissatisfaction among Canadian business men who have occasion to remit large sums to creditors in the United States. It is quite certain that the funds created through the movement of such a valuable export as our fall crops are likely to be will definitely put the Canadian banks in credit at New York. The bills of exchange representing the wheat movement, added to the bills drawn by Canadian manufacturers who have been working on war orders, should serve to turn the exchanges favorable to Canada, and perhaps a gold movement to Montreal might follow.

GRAND TRUNK'S FINANCING.

It is noted that up to date the total of new issues placed in the London market this year is lower than for the corresponding period in any year since 1904. The present total is $317,500,000 (of which $250,000,000 is accounted for by issues of British exchequer bonds), lower by $275,000,000 than the total for the corresponding period of last year. A refunding operation by the Grand Trunk was negotiated this week in London, the public issue being a failure. The issue was of $2,500,000 five-year notes bearing 5½ per cent. interest at 99. The notes are secured by a deposit of £3,600,000 4 p.c. debenture bonds. The bulk of the proceeds of the issue go to retire £2,000,000 one-year notes, brought out on a 4¾ per cent. basis last July. This is the first Canadian railway financing carried out in London for a good many months, and its failure, underwriters being left with 55 per cent., is not likely to encourage further experiments.

DANGERS OF SHORT-TERM BORROWING.

With regard to the practice of short-term borrowing in general, it needs to be borne in mind by our borrowers here that with the financial outlook so obscure as it is at present, considerable care needs to be exercised in following this practice. To provide for immediate necessities or to go on with operations which in the ordinary way would be financed through a long-term issue, by means of short-term borrowing seems an attractive proposition enough. But it has its drawbacks. Some of our municipalities have already discovered them. Two or three years ago, when the London market was beginning to get less indulgent than formerly towards our municipal issues, the administrators of some Canadian cities and towns discovered the short-term issue as a providential device for defeating the machinations of a money market that would not then take their long-term bonds on such favorable terms as before and enable them to go on spending money as fast as they could. So the municipal authorities began to make short term issues, and found when they matured that the money market had gone from bad to worse during their currency and that they either had to renew their short-term obligations at a more expensive rate than before or sell their long-term bonds at a lower figure than that which they had previously declined to accept.

While the experience of these municipalities may not be exactly repeated, the present financial outlook is so obscure that no prophecy can be made as to the money rates which will probably be ruling at the time when the present short-term borrowings which have been and continue to be freely made come to maturity. Undoubtedly, in the present condition of affairs, short-term borrowing is practically the only kind that can be done, but it would at least appear the part of wisdom to vary the terms considerably so that the difficulty is avoided of a great bulk of short-term obligations maturing at the same time. With the outlook so unsettled as it is at present, and with the possibility that short-term borrowings may mature at a period of financial crisis, or when funds are excessively costly, it would appear advisable to proceed with these borrowings only with a maximum of caution.

Mr. J. D. Simpson who has been in the service of the Liverpool and London and Globe in the United Kingdom for the past eleven years, has recently come out to take an important position on the Company's Montreal staff.