"Carrying Charges," or Banking on Produce.

Since the introduction of speculation into the leading produce markets of this country, there has sprung up a new kind of "banking on produce," as it is called by those engaged in it; "carrying charges" by the Exchanges, where it is carried on; and pawn-broking, by those who pay them. This business has grown up within the past ten or fifteen years in connection with the option system, or trading for future delivery, in these markets, instead of spot delivery, for cash, as in the case of stocks, bonds and petroleum, which are borrowed for delivery by the shorts.

This difference in the system of speculation in these agricultural products, or staples of commerce, and in stocks and petroleum, has for its excuse or reason, the fact that in produce there are crop years, while the crop of railroad securities is perennial, and that of crude oil is dependant upon the success with which oil has been struck by explorations in new fields and deeper drilling made in old ones, as well as on the position in the market of the Standard Oil Company.

One crop of any article is not sufficient for speculators to trade in, and hence they must have the option of selling and delivering two and sometimes three crops, which they often utilize, as was seen in the wheat market during the summer of 1887, when New York was trading in all the unexpired months of 1887 and in half of those of 1888. The June and July deliveries of 1887 were of the crop of 1886; those of August, 1887, to August, 1888, were of the crop of 1887, while the balance of the months or options of this year, *call for the crop of 1888, in* which the dealings for December, 1888, were begun in July, 1887. Options and months are synonymous terms in this business, and hence the term May or December option means wheat, corn, oats, pork, lard, meats, cotton, coffee or iron for May or December delivery of the current year; and in trading the sellers offer and the buyers bid for, the month they desire to trade in, during which, the seller has the option of delivering the speculative grade of the article dealt in, any time between one o'clock of the first and last days of that month, when the buyer is obliged to take and pay for the amount bought. Yet these sales for future delivery are almost always based upon the price of the article on the spot, except on corners and when the trading extends beyond one crop year into the next, when the prospects of the coming crop are the basis, which is higher than the current prices when prospects are for a poorer crop than the last, and vice versa. The difference in the market prices of the different options on the same crop is greater, the more remote the month on which the delivery is to be made, in case the trade is not settled by payment of differences before the month arrives, as nine out of ten or ninety-nine out of one hundred out of these bets are (for they are little more). Only in case of a corner in the actual article, and when a large growing crop drags down the last, is this ascending scale of prices reversed. This difference is called the premium on the latter over the nearer month, which is another name for the "carrying charge," and represents the interest on the money paid for the article dealt in insurance and storage for the period between the date of the transaction and the month when it is to be delivered, by the "carrier" or "banker" or "pawn-broker," as he is variously called, who buys the cash stuff and puts it in store, and holds or carries it, till the time of delivery, for the party to the transaction, who bought and who pays the cost of carrying the actual article for the period so held, and as much additional as he will pay (generally as much more), a profit to the carrier or banker. This is what is called "banking on wheat," etc., and the premium, or difference between the different options and spot stuff is what is called the "carrying charges."

This had become a very profitable business at one time, when speculation ran to the extreme on the Bull side, as from 1879 to 1882, and everybody that had enough money to put up a margin of 10 per cent. (or even less), of the *actual cash value of an article, bought it.* As he cannot usually buy the actual stuff and pay for it, he goes to the carrier and gives him his margin and gets him to do it for him, or goes into the open market and buys it of some one else who has bought it of the carriers, or of some one who sells it "short," with no actual stuff to deliver, and takes his chances of lower prices, when he will buy back what he has sold at a higher price. This is called bearing the market; and the seller who takes the risk of selling what he has not, or before he buys, and of being "cornered" by a Bull clique or operator, and of paying more than he sells for, makes the "carrying charges," without "carrying," or owning or holding or paying for a bushel or pound of actual stuff, and only risks his margin, *which must be kept good with his buyer or with* his broker, the same as the one who bought and must pay the "carrying charges" either to him or to a carrier.

It will be apparent, therefore, that on a declining or Bear market the "short" seller has a vast advantage over the "long" buyer, as the former, who is called a Bear, not only makes the decline in prices, but gets the "carrying charges" clear, without carrying anything whatever but his contract in his pocket, and a receipt for his margins. He in fact stands in the carrier's place, and takes his profits and the actual cost of holding or carrying the article for the period intervening between the sale and the time of delivery. But while he is running a speculator's risk of the market going his way, or down, the carrier runs none whatever, if he does a strictly "carrying" business, except of the goods getting out of condition in store. It makes no difference to him whether the markets go up or down, for although he owns the actual stuff, he has it sold to some one else who runs the risk of the market going down, and takes the profit if it goes up. Of course, if the carrier sees that his original margins are kept good, and the stock in store, where his is held, does not get out of condition, he is doing as safe a banking business as he who lends on paper or collateral, and in fact safer, because he has not only the party to the trade, whom he can hold if solvent, for any loss, if he should not keep his margins good, and the actual property beside. While he has the choice of going into the market "under the rules," and selling the property he is carrying for the account of the buyer, before his "original" margins have been exhausted, if he neglect to respond to a call to keep them good *in time to save the carrier from loss* on a declining market. But most of these carriers speculate or scalp the markets for a bigger carrying charge.

This business is sometimes done by banks themselves, though in the name of some commission house or broker, who really acts as their agent, though the contracts all stand in his name, and the bank is not known in the transaction But the bulk of it is done by a few strong houses in the trade itself, where the money is loaned, and who understand the markets and what is going in speculation, while the banks either lend the money to them on call, with or without the warehouse receipts as collateral, or furnish the money, and the carrier does the business and they divide the profits. But these arrangements are secret and their terms unknown, as well as the fact, except when an attempt is made to corner the market and fails, and the "cornerers" with it, and reveals the back entrance to some bank, of which the parties running the deal generally appear to have the key, as in the late Cincinnatti deal in Chicago.

This is the temptation to which both the "carrying business" and those engaged in it are exposed, as well as the banks which back them; for with all the spot stock of any article in their hands, it is easy for them to manipulate the market either up or down, as they often do, and are sometimes caught. But legitimately conducted, it is as legitimate as any other banking business, and more safe in both respects than the average, as the actual property, and that, a staple of commerce, with an established value and ready market, is held as security for both the transactions in it and the loans upon it.—H. A. PIERCE, in *The Banker's Magazine*

Stock Raising in Alberta.

It has been stated in the House of Parliament recently that there are a total of 4,466,844 acres of land in Alberta under lease-hold for grazing. Of this number 1,718,640 acres are under the old lease system on which no settler is allowed to homestead without first obtaining the permission of the lease-holder. On the remainder of this land a homestead entry will be granted to any one making application. This leads the *Calgary Tribune* to remark:—"*The large number* of acres of land in Alberta under lease-hold, upon which no settler is allowed homestead entry, is somewhat appalling, particularly when we take into consideration that there should be one head of cattle to every ten acres of leased land, or the lease is subject to cancellation. If we take 1,718,640 acres and divide it by ten we find there should be on this part 171,864 head of cattle. That this number is largely in excess of the total number of stock in the country no one will for a moment question. But there is besides 2,748,204 acres of leased property which according to government regulations, should have 274,823 head of stock ranging over their valleys and hills. This would give, if the provisions of the lease were carried out, a total of 446,684 cattle on the leases, but