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THE GENERAL FINANCIAL SITUATION

While the numerous new bond issues placed recently in Canada's domestic market would tend at the outset to create an extra demand for banking credits, the transactions when finally completed would bring some relief to the money markets here. In cases where the bond dealers, perhaps operating in the form of syndicates, undertook to provide cash at once for the Canadian province or municipality issuing the bonds, there would doubtless be occasion for bank loans to enable the dealers to take up the bonds. Later, when the securities were distributed among investors, the loans would be cleared off and the situation relieved. In a few instances, the bond issues made here were for the purpose of repaying to Canadian banks, funds which had been advanced by them to redeem maturing bonds in New York. Of course in a case of that description the strain on the Canadian money market and the pressure on the Canadian exchange market materialize at the time the Canadian municipality's bankers pay off the American holders of the bonds. The bank must then make a special loan to the municipality covering the amount of the maturing issue, and it must, at the same time draw upon its American balances for the same amount.

When this is the procedure, the flotation of the new issue in our investment market probably eases the banking position. At any rate the bank that paid off the bonds secures repayment of its special loan—albeit in Canadian funds. On the other hand this bank or others acting for the bond dealers, would require to grant credit to them in connection with the flotation. Although the bank loans to municipalities appear in the May statement at a new high record, it is probable that the bond sales in June would effect some reduction. The May bank return throws a side light of the action of the foreign exchange market throughout June. It appears that the Canadian banks in the month of May were obliged to draw quite heavily upon their reserve of external call loans and banks balances. The call loans outside Canada were reduced by $7,600,000, and the net foreign bank balances decreased about $12,000,000. Thus the movement of the two items represented a draft of nearly $20,000,000 upon the outside reserve. The foreign call loans at $172,000,000 still compare fairly well with recent preceding records but the net bank balances at $46,000,000, are lower than shown for any month-end since May, 1915. With reference to the foreign call loans it is to be remembered that a considerable part thereof is virtually earmarked against the liabilities of our banks in the form of foreign deposits That is to say our bankers feel that they must keep these funds in call loans available for meeting the demands of their foreign creditors, and for other obligations of Canadian customers due abroad. Under the circumstances it is not surprising that the exchange market last month should be consistently strong and that the premium on New York drafts should have risen nearly to the 2½ per cent level. Early this week the announcement was made that the Capital Issues Committee of the American Government had approved of the flotation mainly in the United States, of $5,000,000 six per cent equipment trust certificates of the Imperial Rolling Stock Company of Canada—the purpose being to provide funds for 10 locomotives and 2,400 freight cars for the Canadian Northern Railway. Press dispatches state that one reason prompting the Capital Issues Committee to assent to the issue of Canadian bonds at this time in the American market is that Canada's exchange rates will be beneficially affected. It is to be hoped that this flotation in the United States will be followed by others. While it is not likely that comparatively small loans of this description will immediately cut down the premium, they, nevertheless help to prevent a further rise to new high records.

In connection with the exchange situation, it is said that some American companies exporting large amounts to Canada, showed a marked disposition during June to allow their balances at Canadian bankers to accumulate. These balances are created by the collections made from Canadian merchants and manufacturers importing the American companies' goods; and in the ordinary course the American concerns instruct their Canadian bankers to remit New York funds, when the balances reach certain figures. But with exchange at 2¼ per cent and higher, the loss on remitting became greater than heretofore, and consequently some of the companies are allowing the funds to remain here, in the hope that the exports of Canadian grain in the fall months will bring exchange back again nearly to par. These accumulating balances represent a a liability which we shall be required to meet sooner or later.

Call loan rates and rates of discount on mercantile loans and discounts in Canada are virtually unchanged. In London the Bank of England rate is held at 5 per cent; money continues at 3 per cent with discount bills quoted 3½ and 3 9-16. Call loans in New York have ranged from 3 to 5 per cent. Although the supply of time money is still comparatively light, the market showed a slightly easier tone: 5¾ to 6 per cent being quoted. Mercantile paper continues strong at 6 per cent. Clearing house banks

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