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THE GENERAL FINANCIAL SITUATION.

This week the international money markets have been quiet and easy. The gold movement from New York to London has become important enough to revive the expectation that the 3 per cent. rate of the Bank of England will shortly be lowered. Though call money in the London market is quoted at 2½ to 3, the tone is very easy, and a fall to 2 p. c. is confidently looked for. Short bills eased off to 2 p.c., and three months bills to the same.

Open market at Paris is 1 9-16 compared with the Bank of France's 3 per cent.; and Berlin the market and the Bank of Germany are the same as last week—the former at 2⅞, the latter at 3½.

The 4 and 4½ p.c. quotations for call money in the two Canadian centres—Montreal and Toronto—still obtain. There has been some discussion as to the immediate future of the local markets. One well-informed authority predicted that in a few weeks 3½ p.c. call money would be common. Against this contention is the fact that commercial loans are due for a considerable expansion during the spring months. Usually this begins in February and continues till May or June. But the February bank statement shows the aggregate of current loans to have decreased further in that month. It will be strange if the present month does not see the turning point in this stream of liquidation which has continued ever since June, 1907, with hardly any interruption at all. It may be doubted whether the Canadian stock exchanges will continue to absorb the surplus funds of the banks on the scale at which they did in February. Speculation there is hardly likely to be resumed actively until it is seen how the circumstances of a number of our speculative favourites are affected by recent developments which may have a very broad significance.

In New York the rates of interest quoted are much the same as a week ago. Call loans 1¾ p.c.; 60 days 2½; 90 days 2½ to 2¾; six months 2¾ to 3.

Last Saturday the associated banks made a substantial addition to their surplus chiefly through cutting down the loan account by $16,600,000. Deposits decreased $14,700,000; cash increased $2,300,000; and surplus increased $6,036,000, standing now at $19,433,375 which is much the largest actual surplus for the corresponding week in ten years excepting in 1908 and 1904.

In connection with the cash gain it is explained that some part of the gold exports engaged for London did not figure in the business of the week, but will have an influence on the statement for the current week. Bankers report that considerable funds are still being shipped New Yorkwards by the interior institutions, and that the so-called country banks are sending pressing instructions to put their funds out on the New York market. So far these placements have fully balanced the London withdrawals; and the metropolitan experts apparently are not very hopeful of material improvement in interest rates, in spite of the fact that they have raised their estimate as to the amount of gold likely to go to London. Now it is expected that $40,000,000 or $45,000,000 may cross the Atlantic in this particular movement. As intimated a week ago others among the great joint stock banks of London have followed in the wake of the London City and Midland in engaging gold in New York for the purpose of strengthening their cash reserves. The deposit liabilities of these banks are very large—several separate institutions hold in excess of $200,000,000 in deposits. And it can easily be seen that a general movement on their part to increase the gold reserve against their deposits by so moderate an extent even as 5 per cent. would call for a large stock of the precious metal.

Suppose that in the aggregate a sum of something like $50,000,000 in gold was taken by these banks and stored in their vaults, what would be the effect on the international markets? To get the answer one would have to know definitely just what class or classes of assets the London banks are converting into gold. If they are drawing down their balances at the Bank of England and intend hereafter to carry less in that form, the effect is to relieve the central institution of an imminent and dangerous liability. And, as the bank rarely holds more than 40 per cent. of its liabilities in gold, the innovation would represent an addition of some $30,000,000 to the specie basis of the joint stock banks' liabilities. If the gold accumulations are achieved through calling the funds off the money market there is no doubt but that the operation would have a beneficial tendency upon the interest rate situation from the point of view of the banks. It is likely that in carrying out their policy the London bankers would have an eye to doing so in such a manner as to give themselves the maximum of benefit.