CANADIAN EXCHANGE ON NEW YORK

Recently, the premium on New York funds as quoted in the Montreal and Toronto markets has been above three-quarters of one per cent. writes a Toronto correspondent to the Boston Transcript. This is the rate for large transactions between banks—the general public must pay the round one per cent. when buying drafts on New York. There is no doubt that the banks are making good profits as a result of the big premium. The theory on which the rates are made is that when a bank in a Canadian town or city is requisitioned by a customer for a draft on New York it probably will be obliged to go into the exchange market and buy New York funds at the current rates in order to restore the balance in New York to the proper level.

Whenever the selling bank is forced to take that course it would make but a moderate and reasonable profit through charging 1 per cent—the profit would be from one-eighth to one-quarter of one per cent. However, the banks at all times are receiving from their regular and occasional customers checks and other items payable in the United States, all of which sooner or later go to their credit with New York correspondents, and the ordinary customer on selling these funds to the banks does not get the benefit of the premium. The best he can expect is to have the bank take the items from him at par.

SPECIAL CASES.

Thus by taking the funds from their customers at par or less, the banking institutions get a considerable amount of New York exchange every day cheaply, and when this is sold at a big premium the premium represents clear profit. It should be said, however, that in special cases, where large amounts are involved, the banks probably would have to give the customer the benefit of the premium on buying American funds from him. A big railway company or a large city able to draw on New York for proceeds of a bond issue there, or a Provincial Government or the Dominion, could command special rates; and it is altogether likely that the big exporters of Canadian products having large amounts of American exchange to dispose of from week to week would receive special rates as a result of keen competition among the banks for their accounts. It would be only the sundry and small business that yielded the exceptionally big profits—still in case of a bank with two or three hundred branches, this sundry and small business would amount to a very respectable sum.

EFFECT ON RETAIL PRICES.

It is, of course, a most vexatious thing for an importer or other who has to remit large sums to creditors in the United States to be forced to pay $10 per $1000 as against the normal rate of perhaps $1 per $1000. This cuts into the profits of any commercial transaction and no doubt the abnormal cost of remittance is figuring in the retail prices prevailing now in Canada. Another effect of the high premium on New York funds is seen in the sterling rates quoted here. Just now, as Canada is not placing bonds or stocks on any important scale in England, the flow of money is decidedly towards London. That is to say Canadians—corporations and individuals—are now sending more money to England than England is sending to Canada—the buyers of sterling exchange are more numerous than the sellers. Because of the three-fourths of one to one per cent. premium on New York funds, those Canadians who are obliged to remit to England are losing a great part of the benefit of the low sterling quotations ruling in New York. The American who wishes to remit to London can buy demand bills in New York at around $4.76½, but the Canadian remitter must pay around $4.81. This quite important difference arises through the necessity of adjusting in New York the Canadian balances with London.

CROP MOVEMENT'S RESULTS.

With reference to the length of time the premium on New York funds is likely to continue, it should be said that there have been several disappointments. Many thought that the movement to Europe in May and June of Canadian wheat stored at terminal points throughout the winter would improve the exchange situation with New York as soon as the sterling bills drawn by the Canadian exporters were negotiated in the American centre; but apparently no effect was produced on the exchange rates by this movement. Now the hopes of improvement are based on the outward movement of the Canadian crops this fall and on the shipment of shells, etc., on which it certainly seems reasonable to expect that the Canadian banks will be able to accumulate sufficient balances in New York by October and November to cause a drop in the quotations for New York funds at Montreal and Toronto. The banks have restored their call loans in New York and London to the level obtaining before the war; and as they have thus provided a good fund for emergencies perhaps they can soon furnish New York funds to their customers at much lower rates.

Since the above was written there has been this week a sharp decline in the premium on New York funds, following the issue of the Dominion Government's new loan. On Tuesday the premium was reported as no more than one-eighth of one per cent. Business was, however, nominal.

INSURANCE COMPANIES' SUBSCRIPTIONS TO WAR LOAN.

The following subscriptions by insurance companies to the new War Loan are reported, supplementing those announced in our last week's issue :—

British Dominion's General, £250,000; London and Lancashire Fire, £100,000; Phœnix, £150,000; Provincial (including conversion), £20,000; Royal, £600,000; Sun Fire and Life, £250,000; Scottish Amicable (including conversion), £400,000; Yorkshire (and affiliated Companies), £250,000.

The Dominion Fire Insurance Company has received a new Dominion license to transact hail insurance in the province of Saskatchewan.