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THE GENERAL FINANCIAL SITUATION

The announcement made towards the end of last week that the co-operation of the banks, bond houses and Stock Exchange interests had been secured in an arrangement for the discouragement of overseas selling of Canadian securities, indicates that the "dumping" of these securities during recent months has, in fact, attained even larger dimensions than is generally supposed. This step, with its possibilities of misunderstanding, would hardly have been taken by the Minister of Finance, and the various interests named, unless the position had become a serious one. Moreover, to the bond houses and Stock Exchange interests, it means a very considerable self-denying ordinance. That the arrangement for stopping this "dumping" will be generally loyally observed, goes without saying. The arrangement has no force of law behind it, but it has the whole-hearted co-operation of the banks, and that fact alone ensures that it is likely to be efficacious.

In the newspapers, there has been a good deal of loose talk in this connection about "embargoes" and so on, which is calculated to do harm abroad. Admittedly the matter is a delicate one, although in responsible financial and banking quarters in London, there are not likely to be any misapprehensions on this subject. The facts are simply these. While the liquid wealth of Canada has very largely increased during the last few years, immense amounts, certainly well over 2,000 millions, have been absorbed in the various War Loans issues, and at present the Dominion's increased resources of liquid capital are simply not equal to the task of thoroughly absorbing these issues, of furnishing necessary capital for the establishment and carrying on of new enterprises and essential public works, and at the same time of repaying the loans, amounting to hundreds of millions, made by British and other investors to Canada, during the last ten or fifteen years. As exchange is settled through New York, the effect of this overseas selling, moreover, is to increase the premium on New York exchange in Canada—an extremely serious matter from the point of view of trade and industry generally. It is to be borne in mind also, that while the bulk of

the Dominion Government's war financing has been completed, it is almost certain that a further loan will have to be issued during the present year.

These considerations are, we think, thoroughly appreciated in responsible financial circles in London, and we do not believe that the present step will have an adverse effect upon Canadian securities in the future, when the return of more normal conditions makes Canadian issues in that market again possible. No hardship is imposed upon the British investor by the arrangement, and there is no breach of contract or refusal to pay monies borrowed at due date. Practically all the securities in question can be readily disposed of in London in case of need. The British investor is merely denied the opportunity of making a frankly speculative profit at the expense of the Dominion, the possibility of which profit was never contemplated when the securities in question were purchased.

Locally, by all accounts, the money situation is decidedly acute. The effects of the arrangement, referred to above, are scarcely likely to be felt for some time, and consequently there is a disposition to look for a trend towards lower prices of Stock Exchange securities. There is some questioning locally, also, regarding the extent to which the last Victory Loan was really absorbed. Prospects of further Government borrowing are frankly not looked forward to with enthusiasm, and the Minister of Finance will have the support of the financial community in his efforts to reduce further borrowings to an absolute minimum. The process of "digestion" of the various War Loan issues will be a long one, extending no doubt over several years. Probably in the course of the current year, as we suggested in this column last week, a very fair quantity of these bonds will find their way into strong boxes over the border. With the present premium on New York funds, the various War Loan issues make a remarkably attractive purchase for American investors.

General business is undoubtedly beginning to be affected to some extent, by the premium on New York funds. Cases of cancellation of American orders, and of refusal to buy American goods, by the large stores are being reported, and a number of the firms, whose business consists in the import