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THE GENERAL FINANCIAL SITUATION

The financial markets in America and Western Europe have been awaiting in suspense for the outcome of the terrific battles in France and Flanders; and in view of the tremendous stakes for which the enemy is playing, and the prodigious efforts he is making, especially against the British, it must be said that the securities markets have held well. With reference to the remarkable firmness exhibited by Wall Street, it is explained that the market is now in a most favourable technical position, owing to the long season of liquidation, also that the worst has already been discounted; but, at the same time, there is good reason for concluding that the absence of panicky selling was mainly due to the firm conviction of the market experts, in New York and in London, that the flag of Britain, which has been borne triumphant through many desperate crises in the past, is not on the present occasion going down before the emblem of mediaeval barbarism. This confidence, and the knowledge that British, French and American reinforcements were hurrying to the threatened sectors, served to sustain the quotation list.

The course of events on the European battlefields is taken in London and New York as certain to help the flotation of the American Liberty Loan, now in its second week. American investors now realize more clearly that all the financial and military strength of the United States must be thrown quickly into the war if the cause of the Allies is to be victorious; and they have a clearer perception of the state of hopeless slavery to which a large part of Europe will be condemned if the Germans are not decisively beaten. Meantime, the banking institutions at the American centre are continuing to advance funds to the Washington Treasury in anticipation of the payment of Liberty Loan instalments. The Saturday statement of the New York clearing house banks showed an increase of $167,700,000 in loans, discounts, etc.; while the net demand and time deposits increased $3,700,000, and the reserve in the Federal Reserve Bank increased $22,500,000. As officially computed, the excess reserve stood at $66,000,000, an increase of $21,400,000 for the week. With reference to the increase of excess reserve in the face of the very large loan expansion, it is explained that the increase of loans was chiefly due to the acquisition by the banks of Treasury certificates of indebtedness—this being reflected by a rise of about $130,000,000 in the Government's deposits with the banks. As the process is for the banks to take and hold the short-date Government obligations, placing the proceeds thereof to credit of the United States Treasury in their books, it is usually the case that the banks' holdings of Treasury obligations are greater in amount than the Treasury balances carried by them on deposit. The Treasury proceeds to distribute in the ordinary course the proceeds of the credits granted by the banks; but the banks hold the Treasury obligations until maturity. Thus the reserve requirement does not apply to the Government deposits, and hence the large increase of liabilities under that head did not prevent the banks from showing an increase of their excess reserves.

There has been but little activity in the call loan market at New York. Although lower rates were quoted on individual transactions, renewals and most of the new loans during the week have been at rates ranging between 3 and 4 per cent. Time money rules firmly at 5¾ to 6 per cent. for 30 to 60 days; and 6 per cent. for maturities of from 90 days to 6 months. On commercial paper the rate is 6 per cent. for all dates. All of the 12 Federal Reserve Banks quote 4 per cent. on commercial paper up to 15 days; and for paper with maturity of from 16 to 90 days they quote 4½ to 5 per cent. For re-discounting Government paper, the Federal Reserve Banks charge 4 to 4¼. These rates, of course, apply to transactions put through for member banks. An interesting view of the working of the new reserve system is obtained through comparing the above mentioned changes in position of the New York clearing house banks with the movements reported by the Federal Reserve Bank of New York. This central banking institution showed on Friday an increase of $112,000,000 in commercial paper holdings and a decrease of $107,000,000 in Treasury certificates of indebtedness—the natural inference being that the clearing house banks in taking up the Government's certificates of indebtedness through the Federal Reserve Bank, did so to a large extent by means of commercial paper rediscounted at the Reserve Bank.

In London, the Bank of England rate remains at 5 per cent., and the discount rate for short and three months' bills at 3 9-16; call money is 3 per cent. An interesting reflection of Russia's desertion of the Allied cause is seen in the statement just made by the British Chancellor of the

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