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JAS. J. SALMOND  
Managing Director

FRED. W. FIELD  
Editor

A. E. JENNINGS  
Advertising Manager

## What Caused the Wheat Market Excitement?

*ALLIED Governments Were the Largest Buyers—Most of the Professional Traders Were on the Selling Side—Without Planning, Market Was Cornered But Without Stocks—Functions of Speculation—Position of Grain Exchanges.*

LAST month in the wheat market was one of the most exciting in the history of the grain trade, prices touching the highest figures ever known, and the situation culminating in action by the leading exchanges to restrict trading and close out existing contracts. Naturally, there was great public interest in these events and a vast amount of uninformed and excited comment upon them. Whenever prices go up it is assumed by many people that speculation is responsible for it and that nothing is required but action by the government, preferably by hanging somebody, to bring prices down to comfortable levels again. The effect of such talk, particularly when it comes from persons of high position, is to mislead and inflame the public and probably aggravate the situation.

One of the most interesting articles on the wheat situation is printed in the monthly letter of the National City Bank of New York. The position this spring, it is pointed out, has been extraordinary. As the visible supply diminished, new crop prospects deteriorated and the export demand became seemingly more imperative. The May option had been the one commonly traded in since last fall, and large quantities of wheat had been sold for May delivery. The agents of the allied governments were the largest buyers, and their purpose was to take the wheat. Of course there were speculators on that side of the market, but contrary to the common understanding it is apparent that most of the professional traders had been on the selling side. They had believed there would be wheat enough to go around and had sold short, or, in other words, had sold what they had not yet acquired, expecting that before May had passed the wheat would come into sight and that they could obtain it for their contracts. So far as the mere statistical situation was concerned they were right; it is now evident that there was wheat enough in the country to fill the normal demand, but they made at least one serious miscalculation. They overlooked another set of speculators, the housekeepers. The alarming reports about the winter wheat crops and the food situation in general, with the extraordinary efforts over the country to impress upon the public the importance of practicing economy in food supplies, and of growing more food, had an effect not anticipated: it started the housekeepers to laying in unusual stocks of flour. Grocer's stocks were cleaned out, the grocers bought heavily of the millers, and the millers went into the market and bid the price of cash wheat to a high premium over May delivery, and took the wheat.

As the market got into May, with practically no wheat in store for deliveries, the short-selling speculators awoke to the fact that they were in a dangerous position, and started to cover their contracts. That was the one thing remaining needful to send the market kiting. The situation became abnormal and dangerous. Without having been planned by anybody the market was virtually cornered, although cornered is hardly the word for a market which has no stocks; it was oversold, chiefly to the allied governments. The railroad blockade was a factor in the situation. Grain could not be had to make the deliveries. A large number of the leading commission houses refused to take purchasing orders, hedging operations became impracticable. A number of the leading exchanges took the situation in hand by fixing maximum prices, and a meeting was called to be held in Chicago on May 15th. At this meeting representatives were present from eight of the leading grain exchanges of the United States and from the Winnipeg exchange, also a large number of representative dealers and millers. This meeting approved of the fixing of maximum prices and recommended that such prices be continued and buying restricted to the closing of outstanding contracts until further notice. May wheat in Chicago sold up to \$3.25 per bushel, but the Exchange fixed upon \$3.18 as the settling price.

While the buying of the "shorts" was a factor in the final rise, it is evident that but for their short-selling the market would have gone up some time before it did. The people of this country were buying flour during the winter cheaper than they would have been but for this influence in the wheat market.

With a ban on trading the situation has quieted down. The allied governments changed over a lot of their May contracts to later deliveries, and the outstanding trades have been clearing up. As the season has advanced and the prospects for both winter and spring wheat have improved, and as it became more evident that there is plenty of wheat to last until the new crop is harvested, prices have naturally declined. All of this is accepted by some people as proof that the grain exchanges were responsible for making artificial prices, but no such conclusion is warranted.

At present there is no trading in futures, and no opportunity for hedging either on grain purchases or flour sales. Some change in this situation will doubtless be made before the crop movement begins.