

The Interest Rate on the Next War Loan

Although a Lower Rate than on Last Loan May be expected, the Yield must be Higher than on Current Loans in order to Insure Success of Large Issue.

By H. M. P. ECKARDT.

In the week ending June 17th quotations for our domestic War Loan rose to 99½—the demand for the bonds continuing strong and insistent. According to the leading dailies there is a considerable demand from the United States, and individual and institutional investors in this country are buying steadily. Apparently a goodly amount of the bonds are now held in the sinking funds of Canadian municipalities. Several large cities were among the original subscribers. Thus the list published by the Monetary Times on December 3rd contained 18 subscriptions by Canadian cities for amounts aggregating \$3,300,000, much of which would be for sinking fund purposes. Since the loan was floated there have been purchases in the open market—for example a news item of the other day stated that the City of Saskatoon was purchasing War Loan bonds to the amount of \$150,000. From the point of view of municipal sinking fund trustees these ten-year Dominion bonds yielding 5 per cent or more constitute an attractive investment, particularly if the sinking fund had been carried in the form of a bank deposit bearing 3, 3½, or in special cases 4 per cent interest.

Canadian Issues in United States.

While the market in Canada for Dominion bonds has been growing broader, it is a matter for satisfaction that a great broad market is being created in the United States. The American insurance companies doing business in Canada, or some of them, before the war held a certain amount of Dominion Government bonds, but as the United Kingdom stood ready to take at low rates of interest all the bonds that our Government wished to issue, the American market was not cultivated until as a result of the war, London was compelled to cease lending on a large scale to the Dominions, except for war purposes. Now, not only the representative insurance companies of the United States, but also many of the commercial and savings banks are holders of Dominion bonds, to say nothing of the hundreds of individual investors who have bought them for the first time. Apparently these investors rate the bonds very highly indeed. They give an income considerably higher than that yielded by the bonds of state governments or leading cities in their own

country; and so far as safety or security is concerned, the obligations of the Dominion Government are rated quite as high.

The Return of British Investment.

After the war is over Canada will likely reap considerable benefit from the fact of having created the alternative markets on this side of the Atlantic. It may be several years before the market rate for Government bonds in London gets down again to the level obtaining prior to the war. London is likely to be called upon to make very heavy loans to France and Russia, and perhaps Italy, in connection with the funding of their floating debts and other forms of post-bellum financing. So it may suit all parties concerned if Canada borrows at home or in the States for a time. When the European securities markets again approach normal conditions, it seems quite within the possibilities that London will be ready again to take Dominion bonds at 4 per cent, or 3¾, or even 3½ per cent.; and if such proves to be the case the quotations for the 5 per cent bonds due in 1925 will assuredly rise well above the present level. We may then see London and New York active and keep in competition whenever our Finance Minister has a good sized bond issue to place.

However, while the indications are that prices of the domestic war bonds will in the course of time score an important advance, the quotations during the immediate future will be governed to a certain extent by the terms and conditions under which the forthcoming domestic loan is placed. For example, if the new issue were offered to subscribers at a price to yield about 5½ per cent, the tendency would be to drive down the prices of the old bonds to the neighborhood of a 5½ per cent interest return—that is to say they might go back to 97 or lower. Holders of the old bonds yielding only 5 per cent would sell them in order to put the money into the new bonds yielding the higher rate, and through the natural working of the market the two issues would quickly find a common level, allowing, of course, for any differences in terms or maturity.

The Probable Yield.

The action of the market in the recent past shows

that the parties who are buying the bonds above 99 have confidence or a belief that when the new loan is announced it will be at a lower interest rate than in the case of the last offering. In fact, the market transactions rather point to a rate of 5 per cent or 5½ on the prospective new war loan. Within the last month, bonds of the Provincial Governments of Ontario and Nova Scotia, and of the cities of Montreal and Toronto, have been offered to investors at less than 5 per cent. Notwithstanding this circumstance, there are some points in connection with these issues which make it appear that a domestic war loan of the Dominion Government for a large amount would require to bear a slightly higher rate. In the first place the amounts respectively asked for by these provincial and municipal borrowers are very small in comparison with the amount that the Dominion Government would require. The Finance Minister is expected to ask for anywhere from \$50,000,000 to \$100,000,000—in other words for ten or twenty times as much as any one of the other parties mentioned asked for; and to place the relatively larger amount without danger of a failure or shortage, special efforts would be required. The special efforts would probably take the form of offering a slightly higher rate of interest. There is no doubt that the banks, insurance companies and other institutional buyers would be quite ready to subscribe fairly large amounts at an interest yield of 5 per cent, or a fraction less, but if it is desired to further extend the market in Canada for the bonds among individual investors, it may be deemed advisable to fix the rate of interest at a shade above the round 5 per cent.

It is not desirable to have too great a concentration of the bonds in the hands of the commercial banks; as their extraordinary holdings of the one security might be so large as to interfere to a certain extent with their function of discounting and lending for commercial and industrial purposes. Therefore it will be an advantage, from the economic point of view, to have the new issue widely scattered among individuals in all parts of the Dominion. The last loan is said to have drawn subscriptions from about 25,000 parties. Many of these would of course repeat their subscriptions in case of the new loan; and if the rate of interest is made attractive, there will be thousands of new subscribers. If by means of two or three large domestic loans, the Government creates a constituency of 40,000 or 50,000 home investors accustomed to holding Dominion Government bonds, it strengthens its position, and any time in the future when money is needed, and circumstances do not favor borrowing abroad, recourse can be had to the home constituency.

Our London Letter

The British People are Learning to Know Canada, and Canada should take Advantage of the Occasion

By W. E. DOWDING, London, Eng.

In more ways than one can count the people of this country and especially of London itself are coming to a fuller realization of what the British Empire is, and does, and can do, than they have ever enjoyed before. For eleven years before the war every political speech and nearly every discussion among serious men was wholly or partly concerned with trade and tariff. The resources and development of the Colonies were a favorite subject of the disputants, but I believe it is only recently that the general population of the country can be said to have learned that the British Dominions Oversea produce other things than food, and have uses beyond that of receiving the surplus population of the older countries.

You recently published an enthralling supplement describing the mineral potentialities of Canada as far as they are known. The war has not only given an impetus to your productiveness; it has taught the British people that Canada plays its part in the war with other things than men. I wish that supplement could be put into the hands of every school-boy and school-girl in this country. When the war broke out there was drawing to a conclusion a great educational effort of this kind, but unfortunately the war ordered a marking of time so far as education is concerned in the schools. Nothing can stop the march of education, however, in other ways, and today I believe that school children in the remotest parts of Great Britain more thoroughly understand

and comprehend the British Colonies than at any time in our long island (and perhaps too isolated) history. Doubtless this liveliness of comprehension has not passed unnoticed by those who watch these things in your behalf, and I sincerely hope that somebody is making plans to take full advantage of it as soon as the days of peace smile on us again.

A Wider Knowledge and Wider Sympathy.

The change has come about, as I have said, in a multitude of ways. A wider knowledge has come with a wider sympathy. This week everybody here has been officially reminded once more of the great part the Oversea Dominions are taking in those iron-drenched trenches in France. From the very first day of war when the historic cablegram from Ottawa thrilled every heart here we have been quicker to notice everything that you have done. We have been grateful to think it has been done for us. The psychological sensitiveness of the reputedly stolid Englishman has been awakened, and every mention of Canada, of its munition factories, of its mineral wealth, of its fruitful prairies, of its vast unsurveyed spaces, as well as of its men now fighting, has sunk deep into the national memory. Educationalists know that in such a state of sensitiveness learning becomes easy, and that is why I declare that at this moment we know as a nation as much more about Canada as we regard it the more highly. And again I say that now is the time to strike, if it be found possible to devise any means

by which the greatness and the limitless natural wealth of Canada may be pictured more vividly to British minds.

We are, for example, at this moment, in spite of the preoccupation of war, considering very seriously the mis-uses to which so simple a thing as the cinema is being put. It has become clear at last to the responsible official mind that many of the films which attract and entertain millions of our people every day are worse than worthless, that they encourage vice and that they produce a sort of criminal pretentiousness among children that is surely working harm. A check of some kind is demanded; but if hurtful films are struck out others must take their places. Why should not Canada, with its tense activity and its clean, broad life, be as faithfully portrayed to the pleasure-seekers of our towns as the mock-adventureousness of the cowboys and the Red Indians, and the picturesque pistol-in-hand criminalities of the United States. When I go to the cinema show I laugh with the rest at the exaggerated antics of crude American humorists. I like to see them fall from impossible heights without getting hurt, and rescue themselves from the depths of city sewers, or jump through the walls of houses and smash the crockery; but I have never yet been able to understand why, except from purely commercial reasons, we see on the film so little of Canada and so much of her tremendously active neighbor. The cinema industry must be founded on a commercial basis. That we admit. But is there any real reason why now and then we should not get pictures of your fair country as well? There is an opportunity here that some of your people, quick to see that foundations should be laid for the future, ought to exploit. It is a small thing, and only one of many that could be suggested, but for the moment it looks as though it points to an opening that ought not to be missed.