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THE GENERAL FINANCIAL SITUATION

The recent circular issued by the President of the Canadian Bankers' Association, pointing out the necessity for conservation and curtailment of banking credits, has been taken by the business community as an intimation that lines of credit will be carefully overhauled during the next five or six months, especially during the period in which the banks are making their new series of advances to the Dominion Treasury. Returns issued by the Finance Department show that in April and May the banks rediscounted further amounts of their securities (or commercial paper) at the Treasury, causing thereby a corresponding increase in the volume of Dominion note circulation not covered by gold. Thus the bank statement for May showed an increase of $8,000,000 in the Dominion notes held in bank vaults, while at the same time the Dominion notes pledged by the banks in Central Gold Reserves increased $5,400,000. This increase of over $13,000,000 in the direct and indirect holdings of the banks is balanced by the rise of the Dominion note circulation from $255,600,000 to $268,700,000. Dominion notes outstanding against deposits of approved securities, under Finance Act, 1914, being $95,145,000 on May 31st, as against $81,895,000 on April 30th. The increase of $13,250,000 in issues against securities during May followed an increase of $5,230,000 in April. So in the two months, the banks have rediscounted paper to the extent of $18,480,000. Although no official explanations of the purpose of the loans have appeared, the general belief is that the banks turned in British Treasury bills, or other approved securities, to the Finance Minister to provide in part the necessary funds for carrying the enlarged credit lines of farming, mercantile and manufacturing customers. It will be noted that the banks were obliged to expand their current loans and discounts in Canada, between January 31, 1918 and May 31, $42,000,000.

The special issues of Dominion notes against securities on May 31, notwithstanding the increase of $18,000,000 in the two months, were still below the high level reached in December 1917. These issues were called into play extensively last fall to enable the banks to finance the harvests in such manner as to ensure that producers would be paid cash on delivery as usual. On September 30, the special issues were $11,450,000; on October 31, $53,620,000; on November 30, $91,070,000; and on December 31, $98,270,000. From December 31, to March 31, 1918, the banks were repaying their loans, and in consequence the Dominion note issues contracted the issues based on securities falling to $76,665,000 on March 31. Similarly when the special loans which caused the note expansion of this spring are repaid, the Dominion issues will again contract. Probably it will be necessary in the fall to have recourse extensively to this method of finance. These proceedings throw a side-light on the general monetary situation, and they give point to the circular on conservation of credits issued by Mr. Pease. As the bankers were obliged to rediscount their securities last month, in order to provide the means for fresh loans to regular customers, it seems certain that when they this month commence to make their large special loans to the Minister of Finance, they will be forced to regulate their ordinary loans and discount carefully, after the manner suggested in the Bankers' Association circular.

It is not thought that further regulation of credits will have a material effect upon interest and discount rates. The quotations for call and time loans on bonds and stocks and for the best grades of mercantile paper have not varied greatly for some time, and it is expected that the market will be fairly steady during the immediate future. American exchange continues to be quoted at premiums substantially above 2 per cent. As the business community has abandoned its hopes of a large Dominion loan in the United States, it does not seem that relief can come suddenly or quickly from other directions. Such relief as is obtained through reduction of our adverse trade balance and as a result of American war orders placed here will necessarily take effect slowly or gradually. When the 1918 grain crops go out, however, there will likely be a pronounced improvement in the exchange situation.

Financial atmosphere in London steadily grows brighter as a result of the improving military aspect. While waiting for Hindenburg's final grand assault the Allies in the West are every few days winning local successes of considerable importance at various points on the long battle line. These smart actions, in which the Americans frequently participated, have served to keep up Allied confidence and presumably they have disarranged, to some extent, enemy plans.

Bank of England rate holds, without change, at 5 per cent; discount bills in the open market at London also are unchanged at 3½ and 3 9-16.

In New York call money ranged from 4 to 6 per cent. Time money continues to rule at 6 per cent, borrowers however endeavor to supply their wants at 5¾ on industrial collateral and 5½ on mixed collateral. Mercantile paper commands 5¾ to 6 per cent.

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