MONEY MARKET OUTLOOK.

Average Bank Rate Will Likely be Three Per Cent.—Government Borrowings About the Average—General Gold Position Strengthened.

The Canadian banks have complained in their recently published reports that because of low money rates, profits show a decrease from those of the previous year. According to money market experts, the prospects for the coming twelve months are also for cheap money, the highest Bank of England rate in 1908 was operative from January 2nd to January 16th at 6 per cent. and the lowest 2½ per cent. remained in force from May 28th, 1908, to January 14th, 1909, when a half point rise occurred. The highest rate last year was 5 per cent. from October 21st to December 9th, while the lowest figure was 2½ per cent., which remained in force from April 1st to October 7th. The average Bank of England rate during 1909 was 4 per cent. The average Bank of England rate during 1908 was 4 per cent. and last year 3⅓. The predicted average bank rate for 1910 is about 3 per cent. It is thought that the coming twelve months will be a period of low money rates with the usual rise in the autumn. So far as Canada is concerned it is likely that the commercial expansion which the country will undergo during 1910 and the general increased volume of business will compensate for low money rates, if such they be during the present year. According to the Business Prospects Year-Book for 1910, which was recently reviewed in these columns, the demand for money can be divided into two main heads:

1. The utilization of gold in the payment of wages and in carrying on the retail business of the various countries.

2. The retention of gold by the banks as a reserve against the amounts owing to them.

Vitally Important to Banking Centres.

The first section, that of money in currency for wage and retail purposes, is naturally impossible to measure with any approach to exactness, but it is clear that, in times of trade expansion when men are fully employed and wages are high, the quantity of gold extracted from banking centres must rise enormously in volume. Industrial activity to-day touches all civilized countries simultaneously, and when each of a hundred million workers finds himself weekly with more money in his pocket, the effect on banking centres must be vitally important.

The second section, the volume of gold which bankers consider it necessary to hold, is equally directly dependent on the conditions of trade. Bankers in all parts of the world must and do follow a principle as to retaining a cash reserve, which shall not go below a given proportion of their liabilities. As business expands these liabilites are automatically pushed up by two main causes, firstly the increased volume of the business transacted, and secondly the rise in price of all commodities. The trade of the world is carried on on credit, and as this credit advances in total the banks must either obtain more gold or must gradually see the proportion which their gold reserve bears to the total amount of credit fall until it nears the figure which they regard as the minimum of safety. As this minimum is approached more and more hesitation is shown to make advances, such hesitation being expressed in the form of advancing bank rates.

Credits in Excess of Last Year.

Whilst more gold is thus required to finance the increased volume and higher price, a third factor comes in, namely, the call for capital to make extensions for mines, works and machinery, shipping and inland transport, the activity of trade encouraging and even necessitating the immediate expenditure of new capital for these purposes.

Thus a boom in trade depletes the cash reserves of banking centres by keeping more gold in circulation amongst the wage-earning classes, whilst it simultaneously makes greater demands on bankers for loans for carrying on the world's trade and for capital to provide for extensions.

The year 1908 saw a decided set-back in trade and industry throughout the world. The year 1909 has witnessed some recovery, but the volume of trade is still below the record figures attained in 1907. The trade returns show during 1908 a practically universal decrease in external trade throughout every country, but some recovery in 1909. From the point of view of gold demand the above figures of international commerce, and the guide they afford to domestic trade, show in the clearest manner that the merchants of the world are this year asking for credits in excess of 1908 but still considerably below those of 1906 and 1907.

Output of Gold.

It is thought there will be no extraordinary demand for gold for the wage-earning classes next year. Looking at the average prices of the principal commodities it is learned that in the case of metals, prices were considerably higher in 1907 than in 1909. It may be said that in the boom period of 1906-7, prices of most commodities reached their highest figures, and at the same time the volume of production attained a position which has not since been overtaken. The strain on the gold held by the banks was so severe that the bank rate for 1907 averaged nearly 5 per cent., a rate higher than for the preceding twenty-five years. With the easing of the position in 1908 and 1909, the fall in volume and price of commodities and the reception month by month of large quantities of gold from the principal goldfields of the world, the bank rate has naturally shown a considerably lower average, and for the first nine months of 1909 an average of 2.64 per cent. obtained. The output of gold now totals some 85 to 90 million pounds per annum, and probably during the last two years 150 million pounds of this has found its way into bankers' hands.

A return of the gold in the National Banks of the leading countries at the end of September 1907, 1908 and 1909, shows that they have managed to strengthen their position in the two years by something like £93,000,000. At the present time the various gold mines are producing at a record rate, the output in all the chief gold-producing countries has steadily risen, and the production in 1910 should add another ninety million pounds to the world's gold supply.

Better Demand for Gold.

In purely financial transactions, such as issues of new capital and the creation of bank loans for the purpose of carrying stocks, there is no reason to anticipate anything abnormal in 1910. Both 1908 and 1909 have been particularly heavy years in regard to new issues, but these issues in the main have not been so much for the purpose of future developments as for paying off debts previously contracted. Government borrowings in 1910 should be somewhere about the average, whereas municipalities, railways, and industries, after having experienced two years of falling prices, and decreasing receipts are not likely to plunge into heavy new commitments. The year 1910 will start with the gold reserves in bankers' hands at very much higher figures than those of two years ago. In addition month by month a considerable quantity of gold will be reaching the principal gold exchanges from producing countries. The demand for gold should be in excess of that experienced in 1908 and 1909, but will not be of such a nature as to cause at any period of the year any great increase in the rate. The year, it is thought will be one of fairly cheap money with an average ranging around 3 per cent.

DEPOSITORS HAVE LOST NOTHING.

Correspondent Writes of Government Bank Inspection from Bankers' and Shareholders' Viewpoint—The Director, the General Manager and the Finance Department.

[Under no circumstances will letters contributing to this or any other discussion, be inserted in these columns unless accompanied by the name and address of sender.—Editor, Monetary Times.]

Editor, Monetary Times:

Sir,—After so many years in which to consider it, the differences of opinion on this subject, especially between the men most familiar with its details, is striking. It is easy to understand why there should be divergence between the views of borrowers, depositors, shareholders and bankers; but not so simple to determine the odds between the latter on the subject.

A pamphlet issued by Mr. H. C. McLeod, president of the Bank of Nova Scotia, urging the necessity for inspection of the banks from without, coming from so good an authority, endorsed by some, but opposed by most of the other banks, is worthy of the serious consideration of everyone. While I do not agree with Mr. McLeod in detail, I am, in view of the strong facts he presents, in hearty accord with the general principle, that some additional inspection is necessary. This, I believe, can be worked out on lines having in view the strengthening of the Bank Act, by including some features which will result in gaining the object sought and at the same time be attractive to the parties on the other side of the issue. The features referred to are:—

1. More definite provisions concerning the duties and responsibilities of directors.

2. The segregation of the business of the banks into departments to be administered by a director elected thereto.

3. An uniform system of accounts for all banks.

4. The Bankers' Association to keep track of the general condition of each bank, through the medium of a simple but comprehensive periodical report.

5. Such reports bearing the certificate of the Association to be forwarded to a branch of the Finance Department to be established for the purpose of keeping in touch with the banking business and competent to make an inspection when necessary.