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THE BANKS AND THE BOND MARKET.

About three weeks ago a Toronto broking house issued a circular pointing out that the heavy accumulation of cash resources in the banks, taken with their inability to find satisfactory employment for the funds in the call loan market either at home or abroad, justified the expectation that the bankers would, for a while anyway, give a greater attention to bonds as investments. It was also mentioned that this factor would have a material effect in keeping the market for first-class Canadian securities steady, and that it might eventually cause some sharp advances in quotations as the absorption went on.

It is interesting to note, in connection with this matter, that the bank holdings of securities showed fair increases in both the October and the November statements. In October the increase was $1,000,000, and in November $1,800,000. The grand total of securities as at 30th November, $73,563,721, marked a new high record. The previous high record was on 31st March, 1907, the amount being $72,904,830. Preference has apparently been given, in making the new purchases, to "railway and other bonds." These increased $2,300,000 in the two months referred to. Additional Dominion and provincial government bonds were purchased to the extent of $860,000; while holdings of Canadian municipal, etc., securities decreased about $400,000. For two years prior to these purchases the security holdings of the banks showed a tendency to run down, owing to the monetary stringency. While mercantile borrowers were clamoring for accommodation at 6 p.c. and better, the inducement to put money into bonds at 4½ and 5 was not powerful. Probably there were not a great many liquidating sales in the market by the banks, but from time to time, as certain bonds in their portfolios matured, they were cashed and the monies turned into the general business fund.

Among the principal banks the purchasers have been: Bank of Montreal $500,000 in Dominion and Provincial bonds; Dominion, $600,000 of "railway and other" and $100,000 government; Royal $400,000 "railway and other"; Traders $360,000 of the same; and Commerce, Merchants, Toronto, Hamilton, Imperial, Metropolitan, Hochelaga, and Ottawa, amounts ranging from $125,000 to $200,000 chiefly in "railway and other" bonds. This list shows how general was the enquiry in October and November and bespeaks the continuation of the demand.

It is worth while, in thus diagnosing the relations between the banks and the bond market, to trace the course of the bank holdings over a series of years. The following does so since 1902:

BANK HOLDINGS OF BONDS AND STOCKS FOR INVESTMENT.

Jan., 1902........	$57,524,476	Sep., 1905........	$69,046,976
May, "	59,141,743	Jan., 1906........	69,317,201
Sep., "	59,963,990	May, "	69,984,271
Jan., 1903........	63,092,402	Sep., "	72,308,551
May, "	64,933,137	Jan., 1907........	71,953,672
Sep., "	63,704,871	May, "	72,733,330
Jan., 1904........	63,038,524	Sep., "	71,999,870
May, "	64,947,739	Jan., 1908........	71,533,751
Sep., "	66,819,391	May, "	72,624,466
Jan., 1905........	65,937,447	Sep., "	70,759,514
May, "	67,862,904	Nov., "	73,563,721

A noteworthy feature of the above table is the marked increase occurring in 1903, the year following the 1902 setback to speculation and trade. That depression, however, was short lived. It was not long after it occurred, before the requirements of trade and industry were again absorbing all available funds of the banks. But in 1904, 1905 and 1906 there was moderate purchasing of bonds by the banks—averaging about $3,000,000 per year. In 1907 and 1908, until the last quarter of the latter year, it ceased entirely. Present indications point to 1909 being a record year for these purchases. Though industry and commerce are slowly gaining impetus there is little prospect, for some time to come, of their making enough headway to absorb the banking surpluses. And in the meantime employment has to be found for the funds. Bonds seem well adapted to meet the requirements of the situation. In the earlier days an undue accumulation of funds often produced destructive competition for discount accounts, which resulted not only in an immediate cutting down of the revenues, but also too frequently in an ultimate harvest of bad debts. To-day the policy is more general to refrain from an undue cutting of rates and from the offering of undue inducements of other kinds to borrowers. First-class bonds can be had to return 4 p.c.; and safe second-class bonds to net 5 p.c. and better. With a well-assorted portfolio of securities of these grades, bought with expert judgment, the banker can be reasonably independent of his borrowers. If they show too strong a disposition to demand