No. 2.

The Agent-General to the Hon. the Premier.

Sir,— 7, Westminster Chambers, London, S.W., 11th August, 1881.

Your telegram of the 3rd instant, relating to the inscription of stock, reached me at a remote place in the Western Highlands of Scotland, and I was only able to get back to London last night. I am therefore unable to send you by the mail leaving to-day the full report which your telegram instructs me to make of the terms I should propose for going on with the conversion of the public debt, especially as the consultations I am to have with Sir Penrose Julyan can only begin to-day, and will necessarily occupy some time.

I have no difficulty, however, in conveying to you without any delay the strong impression I entertain that it would be impossible to send you any plan whatever which you could rely upon being able to have carried out in the same shape as it reached you. Whatever operation is undertaken must depend absolutely for its success upon the state of the money-market at the time, and upon the secrecy with which it could be effected; and a plan which was easy one week might become impossible the next. In order to illustrate this, I should like to bring to your notice the movement in the money-market which has been going on unexpectedly for some days past. On Monday, the 1st instant, the market, which had long been perfectly quiescent, suddenly assumed a condition described by the *Times* as "extremely interesting." The forced currency of Italy having been recently abolished, it had been expected for some time that withdrawals of gold would take place on Italian account, and this expectation became a little more marked towards the end of the week before last. But Lombard Street remained unmoved, and money in the open market was as cheap as it had been at any time since 1879, the discount rate for three months bank bills being only 1¼ per cent., or half the Bank of England rate of 2½ per cent., and money at call a mere drug. Nevertheless it was doubted in the city even then whether the extreme ease of money was not anomalous, and was not partly the result of some of the leading banks and discount-houses offering to lend money more freely than they ought. All the financial events of the last twelve months had united to prove beyond doubt that the volume of business had been increasing, gently and insensibly, it is true, but still most materially; while all the signs of the actual time showed this augmentation to be still going on, notwithstanding the fact that there was no pressure, and that every bank and discount-house seemed only anxious to lend an ever-increasing surplus. But the Bank of England reserve had been sensibly diminishing all the time, and was only fifteen millions, against nearly seventeen millions of a year ago. Moreover, the foreign exchanges were for the moment unfavourable, while the open market rates of interest on the Continent were very much higher than in London. So that under all these circumstances it seemed imprudent to rely upon a continuance of the then extreme ease.

This was how last week opened. The next day the bank sold £400,000 in napoleons for Italy, and the diminution in gold during the week was seen to have been altogether more than £600,000 on balance. These withdrawals of gold on Italian account began to cause some anxiety, and consols became weaker, in response to an apparent disposition to look for a change before long in the money-market.

The day after this, upon the issue of a Bank of England return showing the reserve to have gone down to thirteen millions, money began to rise a little, the discount rate for three-months' bank-bills going to 1½ instead of 1¼. It was remarked that, although the diminution in the bank reserve was only temporary, yet its having gone down to thirteen millions was most material to every one interested in the money-market, in the face of gold withdrawals for export still going on; and, the margin against contingencies being now very small, it was clearly seen that, although there was no immediate cause for apprehending really dear money, there was a distinctly-upward movement in the market. This immediately caused a weakness in all the stock markets, consols drooping with the rest.

The next day the upward tendency in the money-market was even more pronounced. Bankers were startled by the announcement that Treasury bills had been allotted at a rate which was equivalent to 2½ per cent. per annum, and some of the larger banks immediately raised their rate for three-months' bills to 2½ (Bank of England rate); but, on its being explained that this allotment of the Treasury bills had been caused by the bank taking them itself at the official minimum, the rate in the open market for three-months' bank-bills could not be called higher than 1¾. No further withdrawals of gold took place, but it was believed that a good deal more would have to go to Italy this week, unless the Italian Government should hesitate in their action upon seeing the effect which their demands, if pressed, might produce. Meanwhile the expectation of dearer money caused some speculative selling for the fall, and English securities again declined, with an equal decline in all the other stock-markets.

The present week opened with a rate of 1⅞ to 2 for three-months' bank-bills, with money on short loan still abundant at 1 to 1½ per cent. But the tone of the market was much firmer than it had been the week before, and, the circumstances pointing to a further hardening being unchanged, all the stock-markets remained dull and inactive, with little business, and prices still drooping.

The next day the market was again firmer under the influence of further gold withdrawals for export, and the discount-houses advanced their rate for deposits at call to 1½ per cent., and at notice to 1¾. The minimum rate of discount on short bank-bills under three months was 2 per cent., while three-months' bills were 2 to 2¼. All the stock-markets were dull, and colonial securities declined.

The day after there was no change in rates, though £300,000 more gold had been taken for Italy, and it was expected that an equal amount would go before this week was over. But part of the gold withdrawn was said to be on American account, and the circumstance of gold going to America at all just now was evidently considered very important; for, as it is to America the