FOREIGN EXCHANGE

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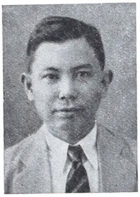

Foreign trade returns corresponding to the first four months of 1938 reveal strikingly the outstanding cause for the continued sustained strength of the dollar since the beginning of the year. The supply of exchange represented by exports which amounted to ₱95,000,000 was short by ₱15,000,000 compared with the demand for exchange represented by imports which totalled ₱110,000,000. In addition, the demand for foreign exchange to settle invisible imports comprised by freight, capital charges and other services must also be met.

There is a notable change in the situation as regards balance of payments from that of last year. During 1937 for the same period exports and imports totalled ₱107,000,000 and ₱73,000,000 respectively which show a decrease of ₱12,000,000 in exports and an increase of ₱37,000,000 in imports during 1938. To maintain the same ratio of position in foreign exchange as that of last year for the same period, excluding settlements of invisible imports, the country was short approximately ₱50,-000,000 in its exports.

During May, bank figures showed markedly reduced volume in bills covering importations from abroad and the dollar thereby reacted slightly although its undertone remained strong. T.T. and D.D. transfers on New York were quoting at 3/4% premium. As, due to the continued scarcity of supply from trade channels, coverage can generally be obtained only from the Philippine Treasury by the purchase of demand draft on New York at 1/2% premium, the margin of profit of banks represented only from 2-1/2% to 3% per annum. As the month advanced, some sellers bid for business by reducing the rate of 5/8% premium for T.T. and D.D. on New York. Other banks were reluctant at first to quote at the lower rate which can yield a profit of only 1% or less for T.T. but were subsequently forced to meet the reduced rate in order not to lose their business. The dollar thus, settled at a slightly lower level than was generally expected.

Offerings of bills covering exports fell far short of the requirements of buyers. Exporters thereby demanded the most favorable rates and bids for bills ruled strong at par for 60-day bills and 1/4% premium for sight.

In the foreign exchange market, chief interest and excitement centered on the French franc due to its impending further devaluation. England and America mindful of serious developments that may ensue if the chaotic conditions in French economy and finance were not straightened out, cooperated to bring about the inevitable devaluation of the French franc in as orderly manner as possible and without serious or violent repercussions on the other world's exchanges.

With a closing rate of 498-9/16 quoted last month, the pound sterling opened steady at 498-13/16, reaching a high of 499-1/2 near the close of the first week, the chief cause being fresh rumors of possible devaluation of the dollar. Concurrently, the crisis in the French franc was reaching its climax, with the French Finance Minister announcing that the French franc had been officially fixed at 179 per pound sterling. England and America followed with a statement that there would be no adjustment or devaluation contemplated in their respective currencies.

The announcement of the devaluation of the French franc had only a moderate influence on the pound sterling which moved to 498-7/8 the next day and was fairly steady around this level up to the near end of the first fortnight.

During the second fortnight, other factors chiefly the Czecho-German tension operated to influence the pound sterling reaching a low of 493-7/8 and closing at 494-15/16.

Opening at 306-1/2, the French franc broke down sharply to 280 with the announcement of its devaluation, or a drop of 26 1/2 or ₱.53 per hundred francs. The rates moved within very narrow range, thereafter, until the second fortnight when it reached a low of 276-3/8 closing at 377-7/8, in sympathy with the weakness of the pound sterling. In the London market, the lowest rate was 178.81 still below the pegged price of 179 per pound sterling.

The Yen moved in sympathy with the pound sterling, quoting steady at 29-1/16 at the opening and moving slightly down to 29 at the close of the first fortnight. Thereafter, it moved at wider range reaching a low of 28-3/4 and closing at 28-7/8.

The Shanghai exchange encountered its greatest set-back so far since the advent of the Sino-Japanese War. Opening at 26-9/16, it moved steadily downward, reaching its lowest at 22-1/2 at the close. The continued victories of the Japanese army in China were ascribed as the chief cause for the sharp fall of this exchange.

Hongkong was generally fairly steady. Opening at 31-3/16, it reached a low of 30-3/4 and closed at 30-7/8. This is due to heavy demand for Hongkong dollars brought about by the prevailing troubles in China.

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COUNTER RATES

	U.S. Dollars		Sterling		Francs		Yen		Shanghai		Hongkong	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
May 1938	201.75	201.50	1/11-11/16	1/11-15/16	6.40	5.80	59	58.60	55.95	44.70	63.50	62.45
May 1937	200.00	199.75	2/o-1/8	2/o-3/16	9.15	9.05	58.10	58	60.20	59.90	61.90	61.35

The Observation...

(*Continued from page* 39)

recognition is given to the time element, and it is now possible
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to carry over what are termed short-term capital losses as offsets to gains incurred in the ensuing year. In other words, increasing attention is being given to a most vital factor, and that is that no capital system can survive if the employment of that capital is made too precarious.

This is one lesson that is obviously being learned, and this writer again ventures the prediction that the coming year will see still further changes in the right direction.