

ment inviting tenders of the first instalment of the 8 per cent. loan in Treasury bills, are herewith enclosed.

6. It does not appear, from your instructions to the Bank, that any limit as to price has been fixed for these 8 per cent. securities other than the Act prescribes. This being the case, and considering they will have such short periods to run, the Bank can hardly fail to find a market for them.

7. Irrespective of the difference in the rate of interest, there can be no doubt that, in the present financial condition of New Zealand, securities having fifty years to run are less marketable than those redeemable in three years. If, therefore, hypothecation must be resorted to, the 8 per cents. would command better terms than the 6 per cents. The short bonds are not only the more valuable of the two, but they can be hypothecated, with power to the lender, in default of the punctual repayment of the sum borrowed, to sell at a rate which would pay the buyer 8 per cent.; whereas "The Rate of Interest Act, 1864," prevents us from entering into any engagements that might result in the final sale of the long bonds at a price that would pay more than 6 per cent.

8. We need hardly add that money could not be so raised, unless at an exorbitant rate, without granting to the lender full power to recoup himself, in the event of default, by selling the 6 per cents. at the market price for the time being; and we should fall short of our duty to the New Zealand Government if we failed to tell you that, in the present state of affairs, there would not be the most remote chance of disposing of any considerable amount of the 6 per cent. debentures. At no time during the last twelve months could such an operation have been effected, and still less could it now be hoped for in the presence of a forthcoming loan of a million of 8 per cent. stock, all of which we are assured by the New Zealand Bank—and we see no reason ourselves to doubt the fact—will find its way to the London market.

9. It appears to us, therefore, that your instructions, both with regard to sale and hypothecation, will for the present, and probably for a long time to come, be rendered nugatory by the limit which has been placed on the selling price.

10. The raising of the rate of interest on the unraised portion of the Three-Million Loan, from 5 to 6 per cent., will not, in our opinion, place the money at your disposal at a cheaper rate, nor render the debentures more saleable, than before. Our experience with other colonies tends rather to an opposite conclusion. It is only about a month ago that we successfully placed a 5 per cent. loan in the market for the Cape of Good Hope Government. Their former issues had all been in 6 per cents., but upon our recommendation the rate was altered to 5, and the result proved highly satisfactory.

11. This principle, however, applies more especially to colonies where 6 per cent. stocks command a premium, and the reason is simply as follows: Premium-bearing securities are not sought after by trustees and others, who object to investments which finally result in a reduction of the capital, while those producing opposite effects, from being bought at a discount, are not open to the same objection, and therefore a more extended market and better prices are found for them, provided the expectant benefit is not too long deferred, as in the case of your 5 per cents., which are not redeemable until after the expiration of fifty years. With these exceptions, it is not important for this market what the nominal rate of interest is. Dealers in such securities, and we may add the general public, know how to measure the relative values between one rate and another to a nicety. The only points on which they experience any difficulty in measuring the value of a loan are those bearing on the solvency and necessities of the borrower; and in making up their minds on these points, they are doubtless influenced in some degree by the price which the borrower shows a willingness to pay for the money as indicated by the rate of interest specified in the Act authorising the loan. It is in this respect that we fear the issue of an 8 per cent. loan will prove prejudicial to future financial operations of the Colony.

12. The greater part of the first instalment of the Three-Million Loan disposed of by us in September last is still in the market, and we have reason to believe that we could at this moment, if it were so desired, repurchase at least half a million at the price at which it was originally sold by us. Considering that when the sale took place the Bank of England rate of interest was 9 per cent., and that it is now only $4\frac{1}{2}$ per cent., with a strong tendency downwards, it would not appear that these securities have grown in popular favor. But in fact the demand for colonial securities generally is extremely limited as compared with past years. The supply is in excess of the demand; and the high dividends paid by joint-stock banks and large companies formed under "The Limited Liability Act," offers so very much greater attraction to capital than these securities do, that we believe all Colonial Governments seeking money in this country must be content for some time to come to give a higher rate for it than they have for the last five or six years been accustomed to pay.

13. Every new colonial loan now brought forward tends to the corroboration of these views. It was only a week or two ago that we disposed of £400,000 Mauritius 6 per cents.; and although the securities of that colony have always stood high in popular favor, and money at the time was abundant at $4\frac{1}{2}$ per cent., we were obliged to submit to a considerable reduction in price as compared with the rates heretofore obtained.

14. On the 31st instant, the results of the Bank's efforts to dispose of the first instalment of the 8 per cent. loan will be ascertained, and we shall be glad if they are such as to afford good grounds for believing that our apprehensions with regard to your 6 per cent. loan are unfounded. By the next mail we hope to be able at all events to write more definitely on the subject.

15. We purpose, by the steamer leaving Southampton on the 20th April, to send you all the vouchers connected with the negociation of that portion of the 5 per cent. loan which has already been placed in the market.

I have, &c.,

PENROSE G. JULYAN,
(for self and colleague.)

P. S.—We learn that the authority granted by Mr. Reader Wood to Messrs. Kennedy and Murdoch, referred to in the second paragraph of this letter, still remains in the possession of the Bank in Auckland.

The Hon. the Colonial Secretary, New Zealand.

P. G. J.