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## London Financial Letter.

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# LONDON FINANCIAL LETTER.

Politics Still Dominate Markets—Rubber's Statistical Position—Are Rubber Auctions Beneficial—The Manufacturers Standpoint—Two Arbuthnot Meetings—The F. M. S. Company's Record.

Nov. 8.

The London market of course continues under the influence of the Balkans hostilities, but the situation is now far clearer in a financial sense than it was a fortnight ago. The settlement last week produced three failures, all comparatively unimportant, but the Paris settlement this week has passed off without difficulty. In all sections the recovery, the beginning of which I was able to notice in my last letter has made further progress. Consols have been especially firm throughout. Their decline during October was only  $\frac{1}{4}$ , whereas they have recovered  $\frac{1}{2}$  this week. It must not however be thought that all difficulties are at an end. The war is still in progress and when it is over the most difficult part of the problem will require unravelling. Tension is greatest as regards Austria-Hungary, which dare not declare its hand until the attitude of Russia and the Triple Entente is declared. Politics still rule markets and while this is so, and while factors are serious because of their uncertainty, speculators need to be cautious despite the growing feeling of optimism. It should be clearly understood that Stock Exchange finances are not at present on an absolutely sound basis, as many firms have been obliged to

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### "ARABELLA" THE RADIO-MEDICINAL NATURAL WATER.

"ARABELLA" THE RADIO- MEDICINAL NATURAL WATER. The ralae of this extraordinary imtural water

### WEAK NERVES




WEAK NERVES And How to Strengthen Them The strenuous life, which i\* now as penoral in the tropics

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have recourse to others than their bankers so carry them over troublesome times pending some recovery in markets. Much stock is pawned, awaiting its opportunity to find a permanent home, and reactions are probable after any rise, whatever the news. A story is prevalent in Paris that Bulgaria received £1,500,000 from a certain group provided she declared war within fourteen days. In the meanwhile, the lenders sold Bulgarian stocks short, replenishing on the fait accompli at enormous profits, with the principal still owing.

#### RUBBER'S STATISTICAL POSITION.



At this week's auction sales only 700 tons were offered, the smallest quantity for some months. The average price realised is still within 6d. per lb. of that obtained at the corresponding sale of last year. The monthly Hard Para statistics are highly satisfactory, visible supplies being only 4,391, against 6,756 tons last year; and deliveries are in excess of landings. Continued good forward sales are being announced from time to time, and the motor exhibitions now being held are expected to exercise some influence on buying shortly, as record business is expected by motor manufacturers in this connection. The lower prices for plantation brands, as compared with Hard Para, instead of arousing holy horror, are now viewed in some quarters with a glad eye, as calculated to advertise the plantation variety. This is the sounder view. The October monthly returns show that plantations outputs are in many instances much in excess of last year's fine figures. The trade looks forward to a big burst of activity next spring. Manufacturers are making big extensions and have big manufacturing programmes on hand. Hence the readiness to enter into forward contracts at higher prices. The magnificent crops in the United States are a highly favourable factor and are expected to give a big stimulus to the motor trade. The rubber share market has been the least affected by the war in the Balkans, and a small volume of investment buying is constantly in evidence, shares being often unobtainable at quoted prices. Malaccas have been firmer on the calmer conditions prevailing on the foreign bourses and Kuala Lumpurs on the excellent report and final dividend. London Asiatics and Malayalams have attracted attention

owing to the fine outputs. United Sumatras at 7s. 6d. and Sumatra Paras at 9s. 3d. have both improved and should go higher. United Serdangs at 5½ are an excellent purchase, as are Bikam 5s., Sungei Kapars 10s. 6d., and Klanang around 22s. 3d.

#### THE RUBBER AUCTIONS QUESTION.

That the steady fall in prices is in direct contradiction to the statistical position is one of the pleas advanced against the present system of selling rubber by auction but the statistical position is not so clear as some eminent authorities make out, and even if it were, it is only one factor in determining prices. Fluctuations of commodities show that strong statistical positions are frequently receiving. Otherwise the path of the dealer and merchant would be easier sailing. The fallacies in many arguments of those who discourse narrowly on the statistical position of rubber have been exposed already. One commonly underlying comparative statistics is equating of Plantation brands with Hard Para. It is forgotten that 100 tons of Hard Para are only equal to 80 tons of Plantation rubber: the difference representing water contents of the former. Hence the available supplies of rubber are much larger than those indicated by the mere figures comparison. As "Macson" was the first writer to point out, "The Plantations are now turning out more dry rubber than the Amazon, and few people realise the fact." Hence the supplies of actual rubber are considerably in excess of what many would have us believe. A strong statistical position may preclude falling markets if demand slackens and continues quite. And that prices fall is no proof that conditions of sale are faulty. A frequent argument advanced against the auction system is that of manipulation,

but auction sales fix a limit even to the dealers' natural *modus operandi*, as they are not hole-in-the corner affairs, being accessible to all. It is the open auctions that prevent manufacturers being at the mercy of the dealers. The producer, if dissatisfied can withdraw his offerings. The producer cannot be compelled to sell or the manufacturer to buy. There must be a compromise.

ARE THE AUCTIONS BENEFICIAL?

Manufacturers often ask me "When the

rubber bubble is going to burst? How long is the price going to be kept at the present artificial level?" There are two sides to the question. When manufacturers contrast their modest profits with those of the producer, they cannot understand why the price should rule so high. The open auction protect all the three parties interested. The dealer may manipulate the price between the auctions. But the auctions offer a genuine price index at which large quantities of the commodity change hands, and any artificial manipulation either up or down is speedily adjusted under the influence of genuine business. Another familiar argument is that whereas private sales are announced by say the Sapumalkande and London Asiatic companies at 4s 8d and 4s 7d per lb the auction averages last month, and for the first October sale not more than 4s 3d per lb. The explanation is obvious. The forward contracts were entered into some time back, before the recent fall occurred, and are for highclass brands of first-class companies, No. 1, Latex. At the early October auctions. Sialang obtained 4s 7d per lb and Highlands 4s 6d per lb, two other companies only 3s 10d. Between these limits every variety of price was forthcoming. The auction average includes all. Further, as a large proportion of the best brands have been sold forward and are not offered at the auction, average auction prices are reduced accordingly. If supplies of rubber are plentiful and demand quiet the difference between the private sales of first-class brands and the auction average will be even more pronounced, as purchasers are able to exercise greater discrimination. Abolish the auction sales and many companies, especially the smaller and newer producers, would be at the mercy of the dealers.

#### NLB RUBBER FLUCTUATIONS. NLB

As plantation rubber has only just begun to dominate the position, and auction sales at Colombo, Singapore, Kuala Lumpur and other commercial centres are practically a recent institution, it is futile to advance fluctuations, which occurred when certain Brazilian interests controlled the market, which was in the hands of a few dealers. The growth of the auction system has been accompanied by an unprecedented steadiness in prices. Hard Para was 4s 4 $\frac{3}{4}$ d. last January. The highest was 5s 2d towards end March. On 12th October the

price was 4s 7½, a maximum fluctuation of 9½d. per lb. The extremes in 1911 were 7s 1d per lb. and 3s 10d per lb. a maximum fluctuation of 3s 4d per lb. In 1910 the fluctuation was 6s 11d per lb. These figures vindicate the auction system. It acts as a check to jerrymandering. The manufacturer can see his way with safety, and it is he who has to do the spade work for the plantation companies. By his enterprise he creates the market for the consumption of the article. Under the auction system the producer knows what his rubber is fetching and the manufacturer knows at what price he can purchase. The view is superficial that conceives that the interests of the producers, the dealers, and the manufacturers are all diametrically opposed. When has the producer of any tropical produce ever enjoyed such splendid profits as those now being obtained by rubber planters? The average price for the year may prove only about 6d. per lb. lower, despite the fact the production will have doubled for five years in succession. Lower prices are stimulating manufacturing activity and rendering splendid service in preparing the way for the absorption of rapidly increasing supplies. The auction system has some drawbacks but its advantages are manifest. It has come to stay.

THE F.M.S. COMPANY.

The F.M.S. Company publishes an excellent report, showing the official estimate of 712,000 lbs. exceeded with 720,853 lbs. actual. The report points out how little the price of rubber varied during the financial year. The total variation for 1911-12 was only 3.55frs., against a difference of 12.77frs. between the extremes of the previous year. A comparatively large reduction in cost of production was effected concurrently with expanding outputs, while costs declined from 2s 9½d to 1s 9½d per lb.—a result, attributable chiefly to increased trees tapped and higher yield per tapped tree. The average yield per tree increased from 2 to 2.49 lbs., and per acre from 211 to 227 lbs. respectively. Some interesting figures are given as to yields obtained from old rubber, twelve acres having produced an average of 6.41 lbs per tree, equivalent to 522 lbs. per acre on a section of the Belmont estate, where wide planting 20ft by 20ft, or 108 trees to the acre, has been adopted; average yield per acre was 617 lbs. This is claimed to justify the policy of thinning out. In the

thinning out system practised by Mr. Skinner, the weakest trees are selected, instead of pursuing an arbitrary rule of thumb method. But the small yields obtainable from the pollarded stumps offer doubtful compensation for the loss resulting from the arrested benefit to the permanent trees. The impaired vitality of the pollarded trees renders them more liable to disease. Unless the trees are stumped and all dead roots eradicated, a congenial ground offers for fomes and an easy communication channel is spread to the living roots of the remaining trees. Tapping the selected tree to death, uprooting and burn-

ing, roots, trunk and branches once for all would seem preferable. The F.M.S. dividend for the year is 90%, against 80% for 1910-11, and 80% for the boom period 1909-10. The crop estimate for 1912-13 is 1,000,000 lbs. A minimum distribution of 100% appears assured.

#### SUMATRA PARA.

The statements in Mr. Arbuthnot's speech at the Sumatra Para meeting were highly satisfactory. A leading planter who knows well all the famous plantations in the Mid East tells me that this company's estates are in magnificent condition, that the tapping is as fine as that on any estate in the F.M.S. and better than that on the majority. At the meeting it was stated that the system of tapping in vogue has been what is known as the half herring bone, only one quarter section being tapped each year, and that with only three cuts, thus giving four full years for renewal. Mr. A.P. Hadow states that the tapping is excellent, being very well and carefully done, and the bark renews particularly rapid and of unusual thickness. This largely arises from wide planting. The extremely low cost of production of 9½d. per lb. which includes management and all other estates charges is to be reduced this year to 8½d. per lb. The crop per tree last year was an average of 4.63 lbs. per tree, an excellent figure which would have been larger had not 70 acres of young rubber tapped for the first time, been included. Individual fields in every instance have recorded increases. The 1898-99 plantings have yielded over 1,000 lbs. of rubber per acre against 900 last year. In every case the yields from the older fields showed increases in pro-

duction ranging from 60 to 180 lbs. per acre. These figures show the absurdity of comparative valuation of shares being made without any regard to the individual merits of different plantations. There are a fair number of estates where 300 lbs. per acre will prove the highest yields obtainable.

#### UNITED SUMATRA—BERANANG.

United Sumatras appear a highly promising purchase up to much higher prices. Crops of rubber for the past four years have been 8,871 lbs., 31,159, 81,359, and 153,630. For this year the estimate is for 270,000 lbs, as Mr Arbuthnot remarks, a truly wonderful increase. The present fine outputs are highly promising for fulfilment of official estimates. Another promising factor is the estimated reduction in the f.o.b. cost of production from 1s. 1½d. to 11d. per lb. With the excellent forward crops 2s. 6d. per lb. net is the minimum distributable profit that can be expected, and a profit of 3s. per lb. appears assured, with one-fifth of the crop sold forward at 4s. 8½d. This means £40,000 profit on a capital of £85,000, or over 45 per cent. For 1913-14 another big crop increase is expected, the official estimate being 445,000. It was hinted that at some future time an amalgamation might be recommended with London Sumatra. The advisability depends upon the terms. To amalgamate a gold mine like United Sumatra with London Sumatra, which has £7,994 preliminary expenses and £3,000 discount on debentures to wipe out, and whose development expenses have been heavy, may be excellent for London Sumatra, but might prove the reverse for United Sumatra. Beranang's visiting agent last year stated that soil and natural conditions were above the average, and that the property was assuredly a very fine one. In the present report we are told that twenty-six acres of gullies, forming a portion of the original 700 acre field planted in rubber, were abandoned, since growth was found very poor and cost of maintenance high. Estimated dividends were given as 10 per cent. for 1911-12 and 54 per cent. for 1914-15. The prospectus anticipations for 1911-12 were 20,000 lbs. The actual output is less than half. £12,000 debentures have been issued already and a further issue may be required before the year is out. Beranang

has begun badly.

(Our Correspondent, who is thoroughly qualified to give a sound opinion, undertakes to answer queries as to Rubber Investments on the London Market. Letters should be addressed "G.J.H. Enquiry, care of Singapore Free Press" and be accompanied by a dollar fee. The Query will then be sent him, and the answer be returned through us. Name of enquirer need not be put on the Enquiry, but must be given up to enable the answer to be forwarded.)

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