

city will most likely have to look for the most important external events that may affect the money-market during the next few months, a quick upward movement must be expected if an American drain sets in before this Italian drain is over. On the other hand, the sharp rise in the value of money brought about a corresponding movement in the exchanges, which became very much in favour of England; and the stock-markets, though irregular and subjected to sharp fluctuations, showed a better tone, speculators for the fall beginning to buy back a little, on finding that the money-market was not hardening so much as was expected, and that the effect on prices generally (of the apprehensions of dearer money) was not turning out as great as had been feared.

Yesterday the events of the preceding few days made an advance rather looked for in the bank rate to-day. The discount rates were firmer, and in some quarters transactions only took place conditionally on their being no advance in the bank rate; but none has been made in the bank parlour to-day. The circumstances, which would have pointed to an advance being made in the bank rate if the drain of gold for export had continued as it had seemed likely to do only a day or two ago, suddenly took a turn for the better: the Italian Government had got what it wanted elsewhere, and the withdrawals which seemed imminent are at any rate postponed, while the Continental exchanges have gone still further in favour of London. But the money-market remains very firm, the discount rate for three-months' bank-bills being now $2\frac{1}{2}$ to $2\frac{1}{2}$ per cent., instead of the $1\frac{1}{2}$ it was ten days ago.

I have troubled you with these details of what has been taking place in the money-market in the course of a single week as the best illustration I could give of what I mean by saying that I could not send you any proposals which you could rely upon being able to carry out. If, for instance, I had been sending you a plan only a week ago, it would certainly have been waste-paper to-day; and I am bound to renew the statement which was contained in my letter to you of 27th May (remuneration of Stock Agents), that, whatever was the limitation of power you might make, a large discretion must inevitably be left to the Agents, and that they must themselves, of necessity, be the people to determine, in the end, both the precise terms and the precise moment of any operation whatever.

The course which I would myself advise is that the Government should only ask Parliament to decide the following points: 1. Which of the loans is to be first dealt with. 2. The least amount of annual saving of interest to the colony which is to be secured by any conversion. 3. The largest sum per cent. which is to be conceded as an inducement to the bondholder to come in. 4. Whether a new conversion-loan is to be issued for the purpose of paying off any of the 5-30s which the holders may not choose to inscribe. 5. The total amount which is to be allowed to come in for inscription during the next three years.

Within the four corners of a decision on these points, I think Parliament might safely and wisely leave the decision of the precise operations to the Agents. Indeed, I do not see how anything else can be done. The most essential thing of all is to keep absolutely secret even the idea of any intention to make a particular operation, for if a suspicion of it were to get abroad all chance of success in it might be destroyed. It is evident to me, in fact, that, if discussions in the New Zealand Parliament disclosed the precise nature of a plan now proposed by me, any decision which was based on these debates, and very likely even the tenor of the debates themselves, would be cabled to London, which would, of course, frustrate any attempt to put the plan into effect at all. For there is no doubt that the inscription of stock has risen in favour, and therefore nothing would be easier than for a financier to make a great sum of money by using his knowledge of what had been done in Parliament to anticipate the action of the Agents during the time that must unavoidably elapse between the receipt of any instructions from the Government and the actual announcement of the operation to be made.

I wish, nevertheless, that you should be pleased to understand that these are my own impressions, which may be modified after consultation with Sir Penrose Julian. Also, that, whatever may, upon that consultation, be our own view of the best course to take, I shall (by the next mail *via* Brindisi, if possible,) comply with your instructions to send you a full statement of our proposals, together with a cipher-code to enable telegraphic orders to be sent by you in reply.

I have, &c.,

The Hon. the Premier, Wellington.

F. D. BELL.

No. 3.

The AGENT-GENERAL to the Hon. the PREMIER.

SIR,—

7, Westminster Chambers, London, S.W., 12th August, 1881.

After writing my letter to you yesterday respecting the conversion of loans I had a long consultation with Sir Penrose Julian.

I wish to say that I should have been prepared to have sent you a further statement by yesterday's mail if it had not been for the following circumstances:—

My letter to you of 3rd June last showed my own view to be that an advantageous operation could be effected in both the 5-30s and the consols; and I was of opinion, for reasons which I had fully thought over, that it would be the best plan to begin with the 5-30s. At that time I was not aware of the scheme which the Stock Agents had sent you on the 15th July, 1880; and I said to you (16th June) that I must put off any observations on the Stock Agents' letter (enclosed in my despatch of 3rd June until I knew what their scheme really was.

On receiving a copy of that scheme on the 23rd June, I learned for the first time that what the Agents had proposed a year ago was to make a beginning with the consols instead of the 5-30s, and to invite tenders in debentures from holders of consols willing to take inscribed stock.