TO THE BANK ADDRESSED:

We quote below for your information a letter received from the Honorable W. P. G. Harding, Governor of the Federal Reserve Board regarding bankers' acceptances now outstanding, drawn by the United States Grain Corporation:

"In view of the large amount of acceptances now outstanding drawn by the United States Grain Corporation, I think that some of your member banks will be interested in the following information which is contained in a letter addressed to me by Mr. Herbert Hoover, United States Food Administrator, under date of the 4th instant.

Mr. Hoover states in his letter that the Grain Corporation has on hand 120,000,000 bushels of wheat costing approximately $260,000,000, and that it has outstanding obligations against this wheat of about $110,000,000. Mr. Hoover also says that "if by any chance the price of wheat should fall by one dollar a bushel, the capital of the Grain Corporation would be almost sufficient to liquidate their maximum possible holding of 170,000,000 bushels."

The Food Act provides for the establishment of a price at principal terminals in the United States, and contains this language:

"The guaranteed prices for the several standard grades of wheat for the crop of nineteen hundred and eighteen, shall be based upon number one northern spring or its equivalent at not less than $2 per bushel at the principal interior primary markets. This guaranty shall not be dependent upon the action of the President under the first part of this section but is hereby made absolute and shall be binding until May first, nineteen hundred and nineteen."

After providing for the establishment of grades and markets the Act continues, as follows:

"Thereupon, the Government of the United States hereby guarantees every producer of wheat produced within the United States, that, upon compliance by him with the regulations prescribed, he shall receive for any wheat produced in reliance upon this guarantee within the period, not exceeding eighteen months, prescribed in the notice, a price not less than the guarantee price therefor as fixed pursuant to this section."
Mr. Hoover regards this as a positive obligation on the part of the United States which should in itself constitute some measure of security. He desires that the banks be informed that there is no wheat in the Black Sea region, that there has been a crop failure in Bulgaria, Roumania and the Ukraine and that, with the opening of the Dardanelles, it will be necessary for the Allied governments to furnish wheat from the United States in order to maintain the populations of those countries and protect them from starvation during the coming winter."

Very truly yours,

FEDERAL RESERVE BANK OF CHICAGO