Four months down, eight to go

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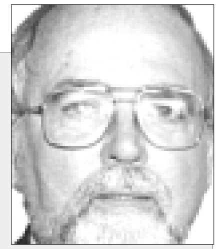

Attention in the marketplace has shifted from hard commodities to soft ones.

Potash, wheat, rice, corn and the like have displaced copper, lead, zinc and nickel in the hearts and minds of investors.

Potash in particular is 2008's worldwide centre of attraction. Of course we can't overlook crude oil trading around 120, or natural gas back above $10 per bcf., but they've both been in the spotlight for a long time.

Some quarter of a century ago the province of Saskatchewan's financial rating was regarded with disdain.

It was looked upon only as a supplier of wheat. Its credit rating was lightly regarded, and its treasurer had to come cap-in-hand to the barons of Bay Street and wizards of Wall, to sell bonds for essential infrastructure improvements.

Today, Saskatchewan sits atop the world's richest and largest potash deposits, and is increasingly becoming a major factor in both conventional and oil sands crude production.

When the price spiral for wheat is added in, Saskatchewan suddenly shoots from a have-not province to a haven for growth-oriented investment. It's pushing British Columbia for the second spot behind Alberta, and starting to show its heels to former top dogs, Ontario and Quebec. During the first four months of this year the S&P/TSX grew by less than 2%.

If it hadn't been for the energy and soft commodity stocks the Canadian market would most likely have tallied a loss. The financial equities, which usually help smooth off the rough spots, were unmitigated disasters.

In the U.S. the DJIA, which doesn't have a large energy or commodity component, dropped nearly 3% during the first third of the year, while the more broadly based S&P 500 tumbled 5%.

Both indexes were negatively influenced by weak financial stocks too.

Estimates of Canada's GNP for 2008 have been dragged steadily lower by deteriorating conditions in the central provinces. Both Ontario and Quebec are expected to ride out the year with very little net growth.

Neither McGuinty nor Charest want a budget deficit on their watch, but the end results are going to be close.

In the U.S., where gloom was all pervasive at the start of the year, a slightly firmer tone is expected to creep into place during the fourth quarter.

The result of November's election remains a key to average or better growth thereafter.

The Bank of Canada has signalled that it will take whatever action may be necessary to avoid recessionary influences. The danger of inflationary pressures in the core area is regarded as modest and unlikely to prevent further interest rate reductions if such should be deemed necessary over the next few months.

The non-core components - energy and food – may already be out of control.

In the U.S. the central bank holds a divergent view with regard to inflation. In a Wall Street Journal article, obviously inspired by Federal Reserve tipsters, it was made clear that future Fed policy will pay strict attention to rising prices for all manner of goods and services.

Further interest rate cuts will only be tolerated if they do not exacerbate inflation, no matter how it is measured.