

**NFI - Milk Market Letter**

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**MILK AND FEED USE MARKET LETTER**

MEAL PURCHASE FILLS – If you are following our recommendations, you were filled on another 25% of your 2010 meal needs at \$2.95 Dec futures. I know most of you buy cash meal but you should now have bought 25% at \$275 and 25% at \$2.95 and 25% at \$280. We will look to secure the other 25% at lower prices at a later time.

February 21, 2010

**CORN**

Last week the USDA held its annual AG Outlook Forum and below is some of the highlights of what they expect in the coming growing season.

The year 2009 was marked by much uncertainty following the global financial collapse in the fall of 2008. Record crops, both home and abroad, has further weakened price prospects for grains and oilseeds. Five years ago, such large crops might have resulted in \$2 corn, \$3 wheat and \$5 soybeans, but because of strong domestic and foreign demand, crop prices still remain high relative to historical levels. Stronger world GDP growth in the latter half of 2009 has contributed to higher cotton prices as world consumption of textile and apparel rebounds.

Ethanol continues to be the major driver in the corn market.

Up to 12 billion gallons of starch-based ethanol can be applied towards meeting the renewable fuel standard mandates in 2010. This translates into 4.5 billion bushels of corn used for ethanol production, an increase of 200 million bushels over estimated ethanol use in 2009/10. The rapid increase in ethanol production that we saw over the last few years is slowing, but ethanol use will continue to account for about 1/3 of total corn use.

Margins have improved for ethanol producers reflecting lower corn prices and higher energy prices.

Corn supplies are projected at a record 14.9 billion bushels for 2010/11, up less than 1 percent from the current year's record on small year-to-year increases in carry-in and production. Production is projected at a record 13.2 billion bushels, up just slightly from the 2009/10 record crop as higher area more than offsets a return to trend yields with normal weather.

Total corn use for 2010/11 is expected at a record 13.24 billion bushels, up 1 percent from the current year record as the rise in projected ethanol use and exports more than offset lower expected feed and residual use.

U.S. corn exports for 2010/11 are projected up 5 percent at 2.1 billion bushels as global livestock production rebounds following the global economic crisis. U.S. corn exports, however, are expected to remain under pressure from large world supplies of feed-quality wheat.

Corn ending stocks are projected to decline 4 percent for 2010/11. The season-average farm price is projected at \$3.60 per bushel, down \$0.10 from the midpoint of the 2009/10 forecast as forward pricing opportunities will be at lower levels than for last year's crop

The USDA is anticipating an increase in corn planted acres to 89 million and they are using a corn yield of 160.4. As noted above, they expect total corn production of 13.1 bbu and usage of 13.2 billion. Carryout, based on these numbers would drop slightly to 1.6440 billion from the current 1.716 billion. Nothing too earth shaking but you know we won't just trade in a 30 cent range for the rest of 2010. We will see yield guess jump all over the place with 170 being thrown out there and if weather isn't good early we'll see someone give us a 153 number. Expect a lot of volatility this spring with carryout guesses ranging from 2.100 billion to 1.200 billion.

NFI will stick with our earlier research with a low in corn of \$3.31 and a low being established by the third week of March. The way the market trades in the next 2 weeks will determine if our prices and timing will work and we will keep you informed as to what the market action in the coming weeks will mean to prices this spring.

The weekly corn continuation chart remains bearish with the trade below the weekly MA's and neither the weekly nor monthly stochs, RSI's or any of the other 8 studies used imply a market bottom yet. Resistance at \$3.71 has been untested on any recent attempt to rally the corn which shows weakness from a technical perspective. Funds remain short a small amount of contracts and they could begin to increase this position in the coming weeks. The March 31<sup>st</sup> plantings report will hold the greatest information for the market to move on and until then we will continue to hack around the current levels.



The US stock market experienced a resilient move higher last week but as long as the S&P remains below 1127 a top in this market with the prospects of a big move lower is possible. This too would have negative implications for corn, crude oil and rally the US dollar in the short run.

**MEAL**

NFI receives many calls from cattle, hog and poultry producers on meal prices. All you have to do is look at the USDA's report from their AG Outlook Forum on beans and you will see extremely large world carryout numbers and much larger US bean carryout levels going forward.

The outlook isn't bright for meal prices or so the information would suggest. A passage of the \$1.00 subsidy for advanced bio fuel from the government would send a nail into the heart of the meal market with the crush needed to supply the market with bean oil would increase meal stock dramatically. The abundance of world bean stocks also means there is a lot of crushing to do to reduce the world numbers and that too is going to be another mountain to climb to see better prices. On the bright side and there is always a bright side if you dig hard enough, and we did, is the livestock market is smiling with the outlook the USDA gave us last week in corn and beans. Numbers have not dropped as many had been anticipating over the next year and if feed stocks remain in abundance livestock numbers will remain healthy and will more than likely increase as

in corn and beans, markets have not dropped as many had been anticipating over the past year and it feels stocks remain in a balance. Investor markets will remain healthy and will move and they increase as world economies and unemployment improve.



Our price outlook for meal prices looks fairly subdued even with the new numbers from the USDA. Of course meal prices will move up and down with beans but bean prices don't look like a total wipe out either and both these markets could surprise us in 2010-2011. We have major support in the front end of meal from \$264-\$267 and this level should hold for the next 2-3 weeks. We will have to see if the market can muster a rally above the weekly MA's at \$289 and \$298. Right now that doesn't look likely.

If meal breaks its support, a strong move to \$244-\$252 should be realized. Such a move would put 8 of 10 indicators into the single digits and meal would become a much over sold buying opportunity. At current levels we are neutral meal prices and see a range of \$264-\$295 for the next several weeks.

MILK

JANUARY MILK PRODUCTION: +0.8%

January milk production in the 23 selected states totaled 14.86 billion lbs., up 1.0% from a year ago, according the USDA's "Milk Production" report released last Friday. Extrapolated 50-state production was 16.10 billion lbs., up 0.8%. Milk production for 2008 increased an average of 2.1% over 2007(adjusted for leap day). Cow numbers in the 50 states decreased by 14,000 head to 9,320,000. This is the first decrease since September. Production per cow was 55.7 lbs. /day, up 0.2 lbs. (+0.3%) vs. a year ago.

Among key states, production in California -1.4%, Wisconsin +1.0%, New York +0.3%, Idaho +0.9%, Pennsylvania -0.3%, Texas +13.0%, Minnesota +2.4%, and New Mexico +5.5%.

Cheese prices dropped for the first time since January 22. Blocks lost 0.50c closing at \$1.3250 with 7 loads traded. Barrel dropped 2.50c to \$1.2750 with 11 loads traded and the most in one day since September 29. Barrels supplies seem plentiful as there were offers left to sell 20 loads.

Butter buyers and sellers remained absent from the spot market leaving price unchanged. Butter production remains heavy keeping product readily available. Milk futures fell in response to the decreasing cheese prices nearly taking away the gains of yesterday. Futures contracts for 2009 lost an average of 12c.

Somewhat encouraging but we have some problems with the charts if the front end of the market drops below \$13.87 as you can see from the weekly milk continuation chart below. Both daily and weekly stochs are in the 20% levels or lower but the monthly stochs however are now approaching the 80% level. It looks like the market can still make an attempt at moving toward the Fib retracement level of \$15.29 and if broken weekly timing suggests a move to our measurement of \$16.72 but we need to move through first resistance within the next 2-3 weeks or a top will form.



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