



**NFI - Milk Market Letter**

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**MILK AND FEED USE MARKET LETTER**

**Buy the last 25% of 2010 meal needs if meal trades to \$253.**

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.

March 7, 2010

**CORN**

The corn market lost 13 ¼ cents on the week and sets up for a further drop in prices as the market failed from the major resistance area in March futures from \$3.77-\$3.82. The USDA will release its March supply/demand report this Wednesday which will hopefully answer some of the questions on the minds of traders. The questions of interest will be if we actually harvested corn with a national average of 165.2 bpa when we all know that few if any had test weight corn of 56 pounds per bushel. Exports are well behind what the USDA has given us for an annual export number and the trade is expecting a drop in this category of 50-75 mbu. It will be interesting to see what the USDA comes up with and how they want the corn numbers represented in possible food inflation as the economy continues to struggle with high unemployment numbers. NFI would guess a drop of 75 mbu in exports and a drop in yield to 164 bpa with at number still well over stated. The USDA will have last year's production number to toy with in the event that the market gets too negative to corn prices.

The weekly continuation chart which always uses the lead month (March contract at the moment) in its readings shows some interesting things. Note that the weekly stochs are sitting at a relatively low reading of 24% and 23% poised to turn lower. At its low point when corn was trading to \$2.90, the weekly stochs were trading at 8% but the market was 75 cents lower. On a measurement base NFI continues to believe that the \$3.30-\$3.42 area provides a very strong level for a market low. With March corn going off the board this Friday, May corn becomes the lead month on the continuation charts.



There is support from \$3.55-\$3.61 and with May trading at \$3.75 a drop of 15-20 cents looks reasonable and very possible. Such a drop would take weekly stochs below the 20% level and make further price drops tougher to maintain. Commodity funds have gone from a net short position of 10,000 contracts to a long of 42,000. They could become sellers if the May corn market drops below \$3.67 this week after the USDA report on Wednesday which could push the May futures as low as \$3.40. NFI views such a drop as a buying opportunity with so many unanswered questions to this year's total crop production.

December corn closed at \$4.02 on Friday and the cash market is giving us prices right around most farmer's breakeven price. The USDA in its Feb report gave the average farm price on new crop corn of \$3.45-\$3.95 so the market is currently yielding cash corn on the low end of their projection. Further price drops in corn between now and planting would produce fewer corn planted acres in the March 31<sup>st</sup> planting intentions report. NFI sees a maximum drop in corn prices of 30-40 cents for the next 2 months in the markets most bearish outlook

**MEAL**

The meal market got drilled this past week and lost \$12.50 to drop the March contract to \$257.90 for the lowest close on a weekly basis since the lows were made the first week of Dec 2009. The market blazed through the support at \$261 and is now set to test the support at \$254 and then \$244. This will devastate meal prices for quite a while as there is now massive resistance over Friday's closing price. Spreading was the main feature with the trade buying beans and bean oil and sell meal. There should be a good size increase in meal stocks in the upcoming USDA report on Wednesday. Look for continued selling early in the week but some short covering should occur before Wednesday.

NFI made some mistakes in recommending meal purchases for the 2010 usage by purchasing too much in the \$290 area but things have changed quite a bit over the past 6 months. We still need to secure the last 25% of our 2010 usage and prices are getting cheap very quickly. The weekly continuation chart of meal now tells us the liquidation from the longs is close at hand. Meal is currently trading below both the daily and weekly MA's with both daily stochs in the single digits and the front weekly stoch at 7%. We also have bullish divergence in the weekly studies and that signals a longer-term buy on the meal market.



NFI views that meal should be bought by end users on any quick drop in meal below \$250. There is a possibility that meal could drop to the contract lows of \$237 but the timing doesn't support such a drop. The market may not turn around on a dime but these levels are cheap from what we can see.

**MILK**

The milk market finally gave way to what turned out to be a real house cleaning in most commodity markets. The front end of the market dropped \$1.15 last week and closed through some major support levels that had been holding the market higher. As NFI wrote several weeks ago, a move through \$13.87 would drop the market back toward the \$12.60 mark and with a close of \$12.89 we aren't far from that level now. The sell off resulted from all over with the biggest reason being the milk market couldn't find any buyers to get it moving through the \$14.92 resistance. The market was almost asleep over the prior two weeks. The top in the market is now 3 months large so it's going to take weeks to try to build a base to begin a rally.



Looking forward it will be almost impossible to test let alone move through the \$13.87 level so the price path looks lower. Timing is negative but not as poor as it looked a week ago so support should develop in the \$12.26 area but a move to \$11.70 is also possible. The swiftness of the drop last week has a lot of longs in the market wanting to get out so any early rally this week will be met with selling from the longs. We should expect another poor week but not as bad as last week. Longer-term the market is in the process of build a base to move higher by the middle of the year and a trading range that we mentioned several months ago should continue a while longer. We might not move out of an \$11.00-\$17.00 range until we can see better economic indicators and get the US consumer more confident in what they see for their futures.

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Mark Prudhomme is commodity licensed as an IB and is a certified CTA. Mark was securities licensed for 15 years but surrendered his license in 2001.