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## NFI - Milk Market Letter

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The following newsletter is being provided as an extended service to you for being a client of Ag Risk Managers Insurance Agency. ARM Insurance believes that the integration of marketing into your crop insurance is vitally important for your long-term financial success. We at ARM Insurance are committed to adding value to your business. Be sure to let us know if we can do anything to serve you better. This newsletter is produced and written by Mark Prudhomme of Northland Financial.

### MILK AND FEED USE MARKET LETTER

**We are now 100% purchased in meal for 2010 at an average futures price of \$275.75.**

April 4, 2010

#### CORN

The corn market lost 11  $\frac{3}{4}$  cents for the week on selling from the USDA planted acres report and bearish technical signals. The CRB index rallied back to test the major up trend line it broke last week. If the CRB fails this test we will see most commodity markets continue to weaken this week. Corn exports last week were the best we've seen in a while and both numbers were above the newly revised export and shipment levels. The larger stocks number we saw out of last week's report should indicate that US corn carryout will approach the 1.950 bbu level up about 130 million bushels from the March report.

With new lows on the weekly continuation charts, the market has no base built for a sustainable rally. It will take 2-3 weeks to attempt to bottom the corn so NFI looks for new lows to come. May corn hit NFI's top downside price target on Friday at \$3.43 but there could be more room lower and a test of \$3.31 is still possible. The resistance in the market is every 5 cents up with the best resistance now around the \$3.60 level. There is nothing in the news that seems to be bullish at this time and the commodity fund managers have gone short corn again. They will continue to defend their new short position until corn can move above the weekly MA's which are currently at \$3.60 and \$3.75 basis May futures. Weekly stochs are 9% and 13% and we will have to see bullish divergence on the weekly studies before a more meaningful recovery can be seen.

#### MEAL

Meal futures lost \$5 last week and had some real trouble at \$285 which is where the weekly MA's rest to begin the week. The USDA report last week was the main culprit that sent meal close to limit down but rebounded the rest of the week. World meal stocks have increased dramatically, as we know, with the huge and still growing SA crop. Planted bean acres of beans in the US this year will increase almost a million acres and demand is once again needed to hold meal stocks from following the bean growth.

By all measures the meal market shouldn't drop much below the \$244 level basis the front future month. Long-term timing is suggesting that a bottom has been put in meal and any retest of the lows will be well supported. Monthly stochs are at 11% and 15% and looking at the monthly continuation chart below it's easy to see that the majority of this massive two year sell off is getting close to having run its course. This isn't to say the market can't move lower than NFI's projections but this isn't a time to be overly bearish. We're not at 70% or 80% on the stochs which makes it easier to be negative. End users need to set a plan to begin buying for 2011 now that we have all of 2010's meal bought.



**MILK**

The milk market closed about unchanged for the week but well off the most recent highs. The cattle inventories continue to be the problem.

**Comments from ARC:**

After 9 consecutive months of losses, dairy margins turned positive at the end of the 3rd quarter of 2009 - and have remained in the black thru the 1st quarter of 2010. Milk prices improved as the drawdown in the US dairy herd took hold and lifted milk prices, while the single largest production cost which is feed declined as US grain markets came under supply pressure. Above operating expenses, Wisconsin dairy producers are estimated to be making between \$2.75- 3/cwt of milk produced. The recovery in margins is certainly a relief, but producers are left trying to plan their next move. Liquidation in the last 2 quarters has slowed as margins turned positive, but the January cattle inventory report reflected a dairy heifer inventory that was up 2%, confirming a return to herd expansion.

Though the dairy herd is slightly smaller than it was in 2009, total fluid milk production is expected to increase due to an elevated Lbs of milk produced/cow. The dairy industry has been one of the most productive agriculture industries in the last 20 years, with Lbs/cow increasing an average of 1%/year since 1990. 2010 estimates are currently at a record large 20,950 Lbs/cow. The chart shows the hurdle that the dairy industry must overcome, and that is one of building cheese and other dairy product stocks. Total US cheese stocks as of February 28th were record large at 983.6 Mil Lbs. Historically, cheese stocks build thru the 1st half of the calendar year, peaking in July, and then decline in the latter half of the year. Record large cheese stocks are expected to be a trend that the dairy market must deal with for the remainder of 2010.

Herd reduction in 2009 has helped establish a floor in the milk market but the along with the demand (or rather lack of), the industry must deal with its own technology and productivity advancements. Sexed semen technology, productivity growth, slowing fluid demand, and building dairy stocks are just a few of the issues that will cap any rally in spot class #3. The dairy industry needs to further reduce herd size and also find a way to stimulate demand both in the foreign and the domestic markets. Herd buyouts in 2010 seem unlikely due to lack of funding. CME futures are offering a more bullish outlook for producers in forward curve that should be taken advantage of. A further fall in feed prices will only add to the US dairy herd by late 2010.

NFI continues to feel that rallies above \$15.30 should be sold.

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