

NFI - Milk Market Letter

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MILK AND FEED USE MARKET LETTER

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

July 5, 2010

CORN

The corn market gained 23 ½ cents last week thanks in part to the USDA reducing stocks and planted acreage numbers. June 1st corn stocks were revealed well below expectations at 4,310 Mil Bu, which implies record large quarterly demand. Most notably, feed use was estimated at a record 1,342 Mil Bu, up 41% from Mar-May of 2009. This occurred even though 2010 Sep-Feb feed demand was down 3.5% from 2009. This was also a record change in the feed use from the 2nd to the 3rd quarter, which is curious as animal numbers declined and the spot wheat-corn spread achieved a contract low. The USDA will raise 2009/10 corn feed use by 200 Mil Bu in the July WASDE to 5,550 Mil and likely cut their ethanol forecast by 50-100 Mil Bu leaving 2009/10 US corn end stocks at 1,453-1,503 Mil Bu. Such stocks should underpin spot corn futures into early August. NFI believes that such large feed numbers came from the fact that test weights on old crop corn were well below the 56 pounds used as a bench mark weight per bushel to accurately determine carryout numbers. As livestock feeders feed corn they needed to use more bushels for weight gain. The USDA didn't factor in the test weight dilemma in their final numbers for 2009 that sent the market tumbling with their increased yield number of 165.1 from The Dec report of 162.9 when the market thought that test weights would reduce the yield number and cut carryout. Corn proceeded to drop from \$4.25 to \$3.47 in 4 consecutive down weeks.

Corn acres increased from the March report across a bulk of the Midwest which will only aid national yield. The Central US weather forecast is generally favorable into July 18, and so only 2-4 weeks remain for adverse weather to significantly affect yield. So between falling old crop supplies and the potential for a possible record US and global production, NFI is neutral on corn prices and we look for a broad trading range through the summer. Support in Dec corn is anywhere around our timing bottom of \$3.46 which we hit last week but have now meaningful bottoming yet. Resistance will be found at two levels, first at \$3.90-\$3.94 and the second layer will be at \$3.98 to \$4.04. As we return from the long holiday weekend, the market will focus on Central US weather, which for now is conducive to good development and yield increases. NFI has already seen yield estimates from the bear side of the market as high as 170 bpa but we will argue that the fields in the upper Midwest have seen too much rain to match the look of the fields we saw last July in IA. As higher yield estimates come forward we will see selling pressure on the corn market.

The continuation chart shows that we are moving back toward the monthly MA's at \$3.69-\$3.71 and then an area that we've talked about dozens of times, the \$3.77-\$3.82 monster resistance. This Friday we will get the USDA Supply/Demand numbers for July and then July futures will go off the board at

noon on the 14th. Tow very important weeks ahead of us. We closed above the weekly MA's on Friday which are at \$3.56 and \$3.57 but it's the monthly MA's and the major resistance that are the main concerns for higher prices. Timing is bullish on the weekly studies.



MEAL

Dec meal gained \$3 on the week as we found support on breaks at the Dec weekly MA's which sit at \$255. The best resistance rests at \$274 and then the double top at \$2.79. With the possibility of new crop bean carryout to move closer to 400 million bushels with the increase in planted acres the USDA gave us last week one would think the meal market will eventually find resistance based on a record large harvest.

End users should watch to see if these bearish fundamentals do in fact develop in the weeks ahead and be prepared to buy meal needs for 2011. Initial measurements suggest the meal could trade from \$221-\$234 or about a \$30 drop in prices. Timing and fundamentals will have to be monitored and the drop might not be this severe but the funds could become more negative than what we think so scaling down in this market will be the program.

Milk

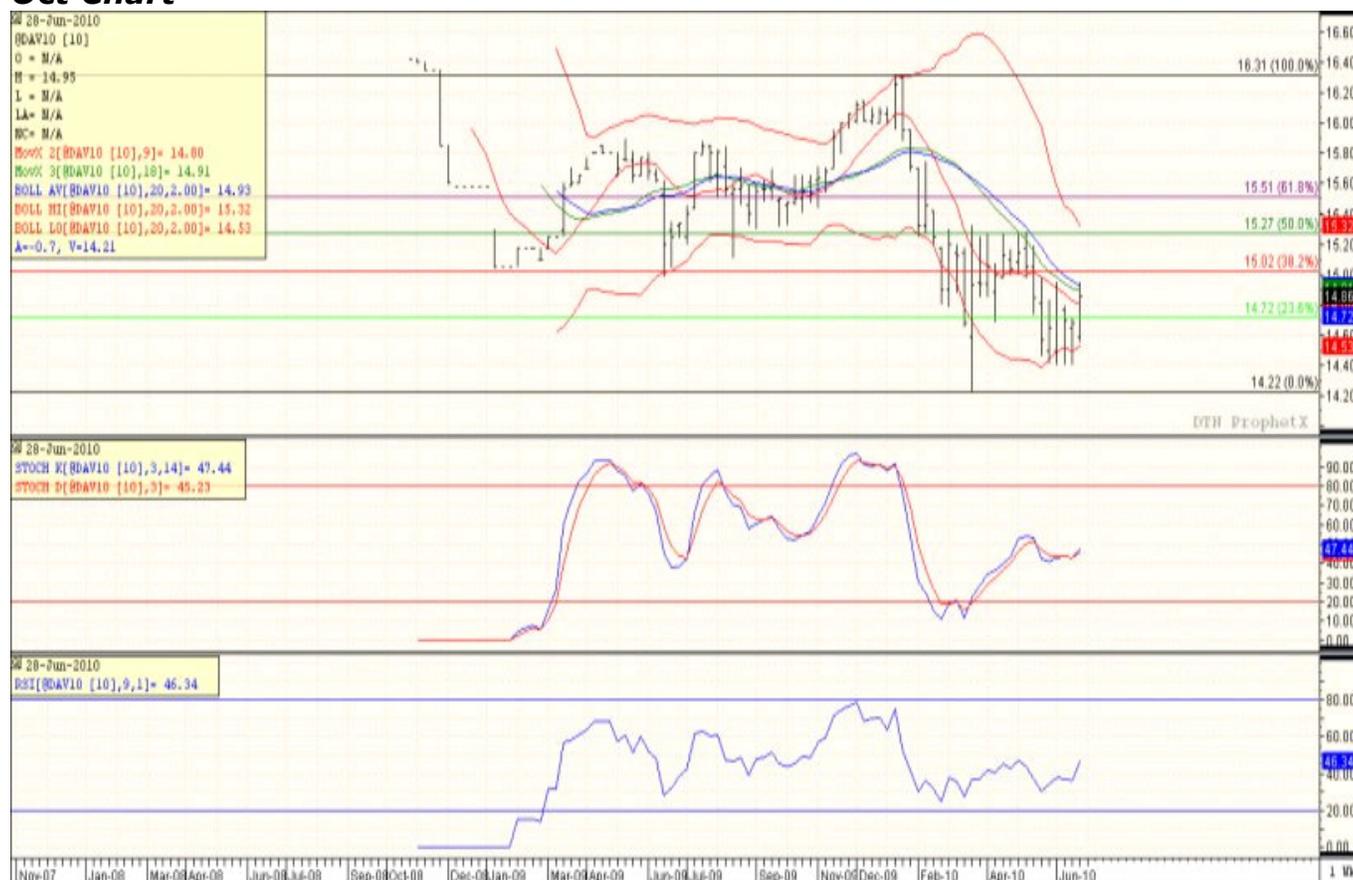
Oct milk futures held the major lows of \$14.40 and have done so for the past 4 weeks. The market direction is still up in the air as most of the indicators NFI follows are all reading at 46% and 47% giving the technical picture a neutral overview. The following is a report from the CME but from a technical perspective we should expect Oct milk to continue to trade in a range of \$13.86 to \$15.50. The base right now looks solid enough to see a move back toward \$15.25.

U.S. producers have proven resilient, with still-unrealized growth potential; but this potential is taking new directions in the new high-feed-cost environment. Growth has returned in the West, but has been greatest in the Midwest. Sexed semen is changing the nature of growth in ways we've discussed before. Whether this growth accelerates or plateaus over the rest of 2010 and into 2011 is uncertain.

The Cooperatives Working Together (CWT) program has invited bids on another herd retirement this summer; cows should begin to leave the herd under this program in July, but the number that will be retired remains to be seen. Although U.S. demand has been steady, it is part of a larger world market, and U.S. prices track world prices more than ever before. In response to high cheese stocks, CWT has also assisted the export of 38.5 million pounds of cheese since March 18. Partly as a result, U.S. spring stocks of cheese are growing more slowly than usual, and American cheese stocks were about even with the 10-year trend for June 1. On the other hand, other-than-American cheeses, which are not historically a driver of prices, were still 9% above the June trend.

Chinese dairy imports have been strong. Even if they are not primarily from the U.S., they have boosted U.S. prices through their effect on world prices. However, China's demand can, on occasion, be turned on and off through government action; this, together with their Desire to prod consumer demand for domestic milk after the melamine scandals, casts additional uncertainty on international markets. Uncertainty about the recovery of the world economy means additional uncertainty about global consumer demand for dairy products.

Oct Chart



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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.

...with a passion to continue, needed to be... and to a certain extent, that has become needed for 10 years or so... the needs in 2001.

Thank You,
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