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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

End users should purchase the first 25% of your 2010 meal needs either Sunday night in the market or first thing Monday morning with your supplier at \$275 or better. Make a second 25% purchase if you see Dec meal trade to \$266 or better.

Sept 13, 2009

### CORN

If the lows are in on the corn market my timing date was one day off. The USDA report showed an increase in yields and total production but the most important number, carryout, was only increased by 14 mbu due to an increase in feed/residual and exports. Ethanol usage remained unchanged but with corn close to \$3.00 and crude over \$70 I would think we could see an increase in ethanol use of 100-150 mbu in the Oct report. As I've mentioned in past letters, the USDA still hasn't addressed total planted acres from July 30<sup>th</sup> and a month ago they said they would readdress this topic but still haven't done so. There could still be a reduction in acres of 2-3 million in future reports if the USDA finds the need to increase yields to 165 or more.

The Oct report will be bearish the way I see it. We've raised exports too far in my opinion and there's no place to add to demand except for ethanol use. The yields will increase with the weather we've seen over the past three weeks and still no sign of an early frost. Yields could increase as high as 166, which would take the current carryout of 1.635 billion to something closer to 1.850 billion. That's still a long way from what the biggest bears were talking about just a month ago when we heard carryout numbers as high as 2.400 billion. This thinking should put resistance over the market after we've seen a recovery higher in prices. Monthly Dec corn chart stochs are at 5% and 8% while the weekly stochs on the Dec chart are at 7% and 8%, still very cheap when you look at the market long-term. The demand cards are on the table so now it's all about yield and how big the crop will be. Any increase in yield will only affect the carryout number so I'm turning negative on future USDA reports but we've already traded production numbers as high as 13.40 bbu's. The affect to Dec corn prices will be minimal even with an increase in yields to 166 bpa.

Looking at a possible price range I can see Dec corn finding resistance at \$3.48-\$3.55 and support from \$3.05-\$2.90. Last week and for many weeks past, farmers and analysts have been talking about a drop to \$2.60 and some analysts, Allendale for example, were telling producers they could see a drop to \$2.25. I think such bearishness has to be taken off the table with the USDA having given us a carryout of 1.635 on Friday. To achieve a price below \$2.60 we would have to see a carryout above 2.200 billion. That will only happen now if the USDA gives us a yield of 169 or higher from the current 161.9.

### MEAL

After seeing the USDA numbers last Friday I need to continue to tweak the meal numbers to get some coverage on for end users. I've made a recommendation at the top of this letter to make all of you aware that we need to make our first buy to get 2010 meal coverage on. Sept meal goes off the board on Monday at noon and Sept is currently trading \$62.5 over the Dec contract. When Sept goes off the board the continuation charts will look a lot more bullish than they currently are. I think we should get our feet wet and get something on the books. Right now a second purchase looks to be in order if we see Dec meal trade down to \$266 so you can put that order in also.

MILK

Dec milk futures traded 42 cents higher on the week and as you can see from the Dec weekly milk chart below it looks like we are attempting to bottom the milk market at least for the near term. Monthly stochs are down to 6% and 8% for there is little reason for the bears to want to press the market from where we are today. As I said last week, we could still see a spike bottom where the market gets pulled below \$12.55 but that would be a fantastic buying opportunity.



The weekly base is getting quite large and the longer we put in a bottom that can hold \$12.90 the better the long-term picture will be. If the lows hold in here I'm looking for the market to recover to \$14.70-\$15.30 before selling back to see if the support is still there. Longer-term I look for the market to move back to \$15.80-\$16.40 and we should open a large trading range of \$12.60-\$17.20.

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