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MILK AND FEED USE MARKET LETTER

Oct 11, 2009

NEW RECOMMENDATION: Cancel all previously entered orders. Buy another 25% meal coverage if Dec meal trades down to \$295.

CORN

Corn closed the week up 28 $\frac{3}{4}$ cents and the USDA report was viewed as neutral in the market. The yield number was higher than the 164 I thought it would be coming out at 164.2 bpa but the carryout number was not nearly as high as the trade thought coming in at 1.672 bbu or an increase of just 37 mbu. Since the July supply/demand report the carryout has increased just 225 mbu while the yield has gone from 152.5 bpa to 164.2. Another interesting point and one that I've mention several times is that the USDA reduced planted corn acres by 700,000. I thought it would have been more but I continued to feel they would reduce acres because of Preventive Planting. Exports were reduced by 50 mbu but feed/residual was increased by a like amount.

Here's how the report looks on the balance sheet now:

October 2009

U.S. Feed Grain and Corn Supply and Use 1/

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Item	: 2007/08	: 2008/09	: 2009/10 Projections
		: Est.	: September October
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CORN	:			
Area	:	Million acres		
Planted	:	93.5	86.0	87.0
Harvested	:	86.5	78.6	80.0
Yield per harvested acre	:	Bushels		
	:	150.7	153.9	161.9
	:	Million bushels		
Beginning stocks		1,304	1,624	1,695
Production		13,038	12,101	12,954
Imports	:	20	14	10
Supply, total	:	14,362	13,739	14,660
Feed and residual		5,913	5,231	5,350
Food, seed & industrial		4,387	4,976	5,475
Ethanol for fuel 2/	:	3,049	3,700	4,200
Domestic, total		10,300	10,207	10,825
Exports	:	2,437	1,858	2,200
Use, total	:	12,737	12,065	13,025
Ending stocks, total		1,624	1,674	1,635
CCC inventory	:	0	0	0
Free stocks	:	1,624	1,674	1,635
Outstanding loans	:	106	171	225
Avg. farm price (\$/bu) 3/		4.20	4.06	3.05- 3.65
				3.05- 3.65

As you can see the USDA didn't move the average price per bushel for on farm prices, so a rally of 15-25 cents should be as good as it gets for a while. These numbers do indicate to me at least that we will have a fight for acres for the 2010 crop between corn and beans. Carryout just isn't as big as the bears of 3 months ago were thinking. I would make a guess that the front end of corn stays in a range of \$3.40-\$4.10 for the near future.

The 60-minute stochs have dropped from 92% to 48% and we're just 8 cents off the weekly highs. The weekly stochs are 58% and 41% so there is still plenty of bull timing left in the corn market. The lows should definitely be in now.

MEAL

The meal market took a hit with the beans last Friday and for the week Dec meal lost \$7 to close at \$272. We've already made a 25% purchase for the 2010 usage year and I would enter an order to buy another 25% if Dec meal would print \$2.66 or better. This would get us to 50% bought for meal use for 2010.

Weekly stochs are at 6% and 12%, which his getting cheap but the weekly RSI is still at a fairly lofty 35%. The monthly stochs are very negative at 31% and 42% so we are still a ways away from seeing a good timing bottom in meal. There is an outside chance, based on timing that Dec meal could trade as low as \$230 but that just looks to low on the weekly and monthly studies. If the USDA follows the Informa yield number of 44 bushels per acre we would see a jump in bean carryout from the current 250 million bushels to as much as 350 million and that would take meal to the lower end of what I see could be possible for meal prices at \$240.

MEAL

The USDA soy complex supply/demand report was viewed as bullish with US carryout at just 230 mbu and we are getting closer to the end of the 2009 production year. The report for bean oil was also bullish but the meal was a bit negative. This will make the meal look soft as traders buy beans and bean oil and sell meal on a spread base but you can't get overly negative meal if the rest of the complex looks stronger.

Dec meal closed at \$297.30 and has moved sharply away from our first meal purchase of \$275. With Friday's report I feel we need to be at least 50% bought on our 2010 meal needs and therefore the recommendation at the top of this letter. Soy stocks in the US could continue to decline with poor harvest conditions not to mention a problem in the 2010-growing season. World stocks increased dramatically with huge 2010 production projections and this will pressure prices after the first of the year if conditions in SA are good.

MILK

Dec milk futures closed at its highest point since June with a weekly close at \$14.70. Short-term indicators are over bought but we have plenty of bullish timing on the monthly studies. I would look for any move above \$15.20 to be met with good selling and the best I could see this rally getting to would be \$15.70. There will be another set back but this is all in the process of building a major long-term bottom.

Last week I outlined a lot of things about the fundamentals of the dairy market and those will still have to be met and changed before we can get back to seeing better or any type of profits. I don't see the market being able to trade below and hold below \$12.50 and timing would suggest to me that we will see prices move back toward the \$16.50-\$17 mark by the beginning of the second quarter of 2010.

There should be excellent support for the milk market on breaks. The bull divergence we established over the past 6 months will serve as a buffer against those that think or want the market lower. As I mentioned many times over the past months, there was little profit potential for those wanting to be bearish when the market was down at \$13 and that will remain the underlying support in the months ahead.

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