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MILK AND FEED USE MARKET LETTER

January 10, 2010

MEAL PURCHASE FILL – 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 a cash meal but you should now have bought 25% at \$2.75 and 25% at \$2.95. We will look to secure the other 50% at lower prices at a later time.

We want to be buyers of another 25% of our 2010 meal needs if the front end of meal trades to \$280. This would put us 75% bought for 2010.

January 10, 2010

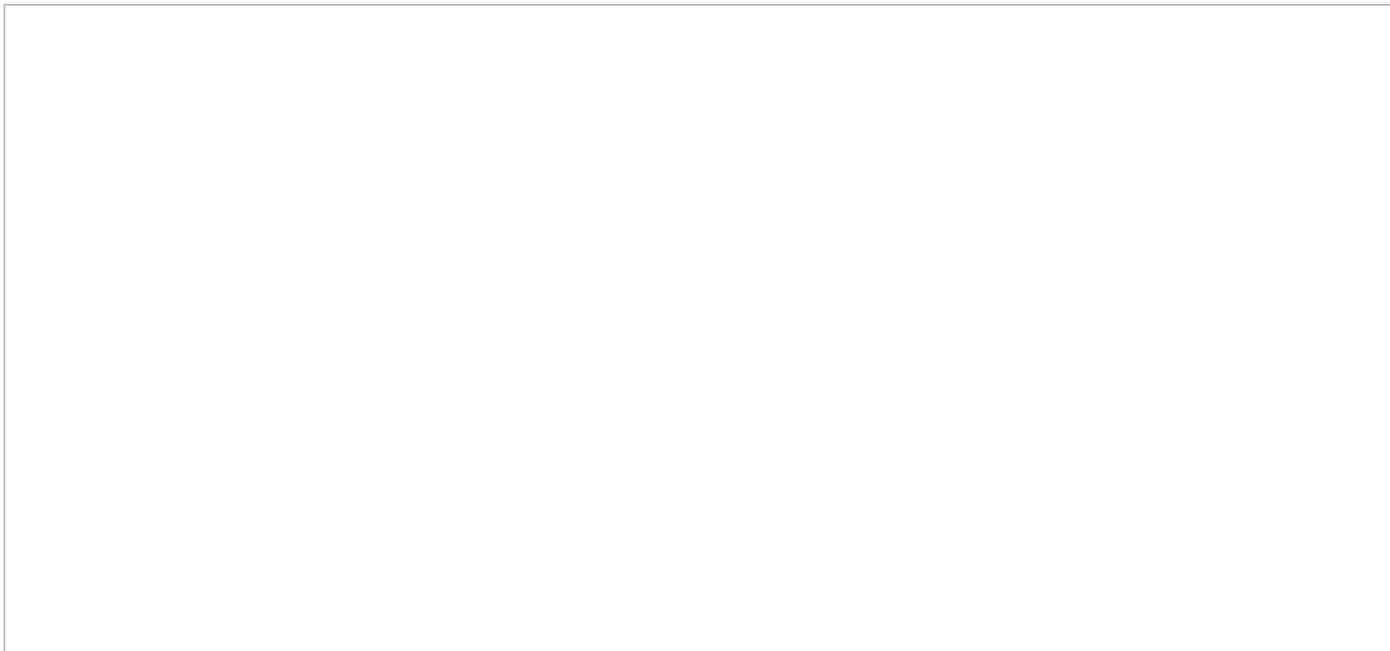
CORN

The corn market gained 8 ½ cents last week with the big day coming on Friday when we closed up 5 ½ cents. Fund buying was the culprit of the rally as the fund's rebalance for 2010. Exports for the week were poor again and export numbers will have to be dropped as we've wasted too many months with below performance numbers.

The big event for the week will be the January USDA Supply/Demand report in what is called the FINAL for 2009 but we all know that this number will change many times in the months or even a year from now. NFI believes exports will be dropped 50-75 mbu and residual numbers should also come down 25 mbu. This should increase US carryout about 10 mbu but we also think the yield level will drop because of the poor test weight and corn left in the field, about 75 mbu so the net effect to the balance sheet should be an increase of 2 mbu or so and take carryout between 1.700 billion and 1.725 billion bushels. The fundamental picture in corn continues to be one of adequate supplies with a good possibility of seeing an increase of 3-5 million more acres of corn in 2010 due to the corn/bean ratio.

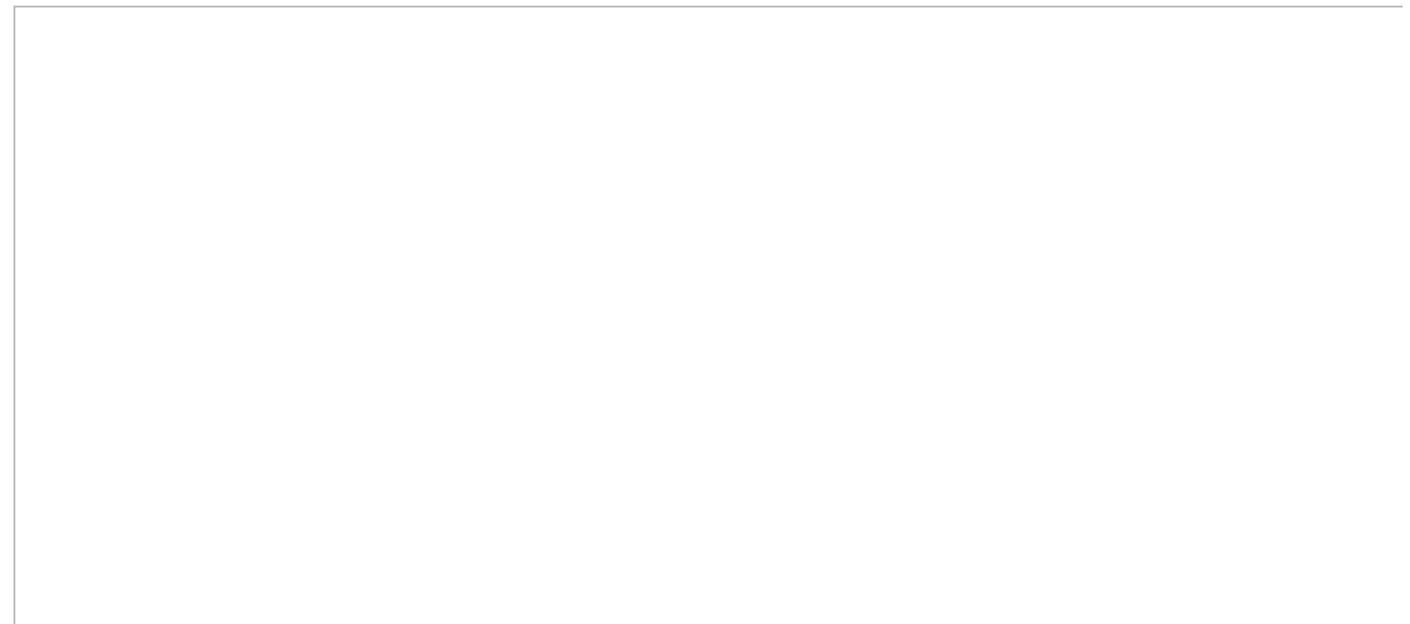
Another factor that continues to be present is the relationship between the equity markets and commodity markets. As long as fund managers in the equity markets continue to see improved earnings for stocks and a continued recovery in US and world economies, they will continue to buy commodities as part of their balanced portfolios. NFI views the current chart formations in equities as one with a poor risk/reward ratio. There could be another 200-300 points to the upside in the Dow but the risk we see is a move all the way back to 1018 on the S&P or a drop of about 900 points. That gives one a risk/reward of 1 to 3 and we see the Dow as getting to be a high risk trade without a meaningful correction.

The weekly corn continuation chart below shows that the technical side of the market is approaching an area where things are getting a bit overbought. We still don't show any bearish divergence and that's one indicator we always look for to get a decent handle on where a top could form in a particular market. The thought that the corn market could still spike to a high around \$4.40 remains a possibility but that will take further fund buying and a USDA report that is neutral to bullish. Weekly support rests at \$3.98 and \$3.75.



WHEAT

This is a market that couldn't buy a bullish weekly export number let alone a bullish Supply/Demand balance sheet. US and world stocks continue to climb and there isn't an end in sight. We did plant fewer winter wheat acres but those are already in the market. If it weren't for the funds stepping in to support prices we just might be looking to break \$5.00 again. Most not all analysts believe wheat is ready to head back toward the \$4.74 level of support or a drop of over \$1.00 a bushel. I can't remember seeing a market that is so negatively viewed by just about everyone except the fund players.



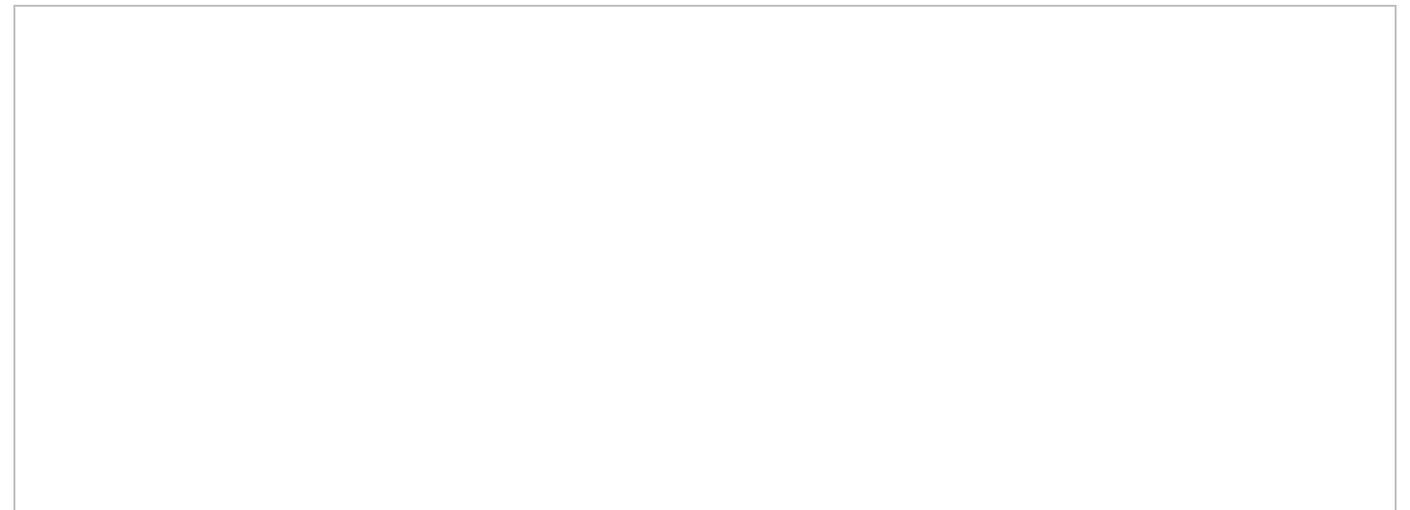
The way we look at the wheat studies doesn't suggest any kind of drop like the one just presented above. Monthly and Weekly timing is still bullish and suggesting a move to \$5.90 or possibly as high as \$6.34. A move to \$6.00 should be sold however for producers as the profits are there for the taking. The best support in the market is back at \$5.03-\$5.09 so there is a developing risk of a drop in the market.

World numbers in the upcoming USDA report should reveal that fundamentals continue to be negative so if the funds do come in and help us out with a shot higher in the market producers should reward such a rally with sales. Being 65% sold out of last year's wheat production should be a goal by producers.

MEAL

We know the fundamentals in beans aren't the best at the moment and meal stocks and exports haven't been the best either but we continue to hold the front end of meal above \$30. This is an important level as we've bottomed there before with sharp rallies following.

There are several problems facing the meal market in the days and weeks ahead. First is Tuesday's report and second is the fact that Jan meal goes off the board next week and March meal becomes the lead month. If \$304 is a pivotal level, March meal is currently trading \$298.30. This will put meal in a sell formation next week unless we are able to move and close above it at the end of next week and that doesn't look like a reality at the moment.

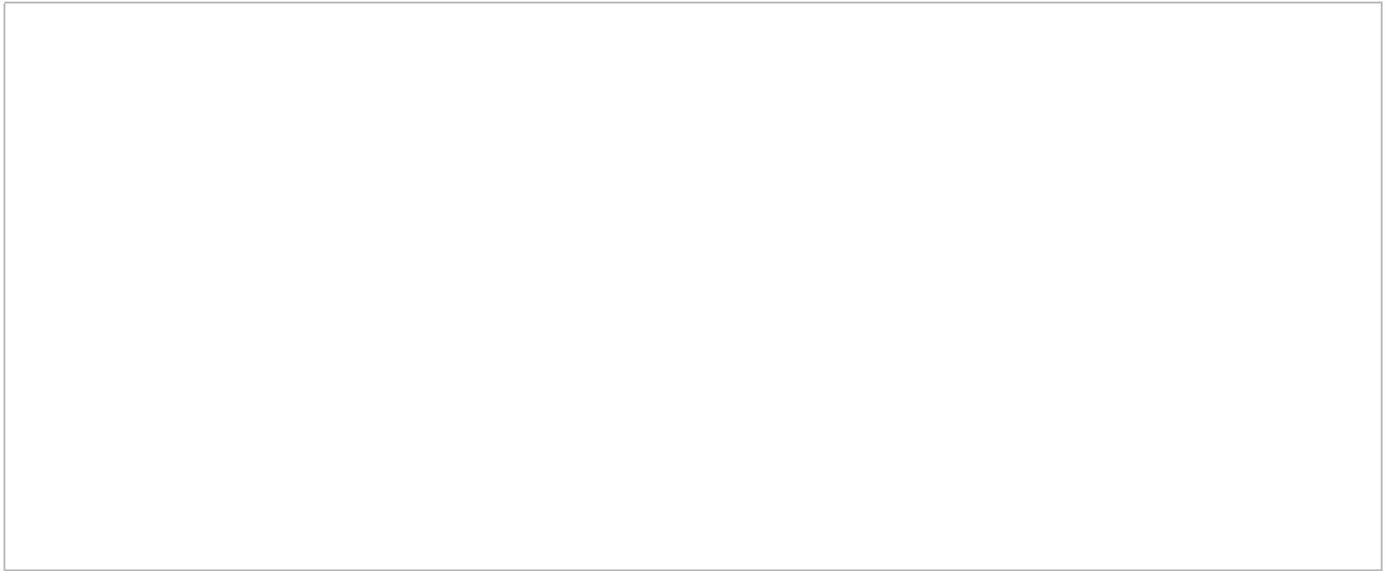


The next good support area in this market shows up at the retracement level we've tested several times with small dips below the \$288.60 level and printing \$284. With the timing we have NFI still likes meal to go higher long-term but there could be a break as low as \$270. The long-term outlook we see for meal is for a move back to \$370 but the end of the third quarter 2010. End users should be securing meal needs to finish out 2010 and also looking to get some on for 2011 on any good breaks.

MILK

For the week, milk gained 15 cents in what looks to be a low volume, lackluster market. There just doesn't seem to be many players in the milk market lately and it's showing up in price movement over the past 3 weeks. This is neither a positive nor a negative but past experience tells us that when volume dries up you can expect a big move is coming. The short term timing suggests that if the front end of the market can hold the \$13.87 level the market will take a very quick move to \$15.30-\$15.55. This type of move should put another top in the milk advance but the trend is up and milk should continue to ride the wave higher.

Monthly timing is still bullish with at least 3 weeks of this timing remaining. The weekly studies haven't given a sell signal yet and we should see bearish divergence occur before a meaningful sell off shows up. This could send prices as high as the \$16 level on the front end of the market. A close below the \$13.80 level would send the market back to first support at \$12.70 but we think it's more likely to move into the \$15 level before we see a move to \$12.70.



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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.