NFI - Milk Market Letter

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MILK AND FEED USE MARKET LETTER

January 24, 2010

MEAL PURCHASE FILLS – 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 cash meal but you should now have bought 25% at $275 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 24, 2010

CORN

For the week, corn lost another 6 ¾ cents and closed lower for the third straight week. Continued pressure from commodity fund liquidation looks to be in play again this week and that could spell big trouble for corn. A close or a gap lower and below $3.62 will leave a 2 ½ month top in the corn and put the market in a very negative timing outlook. With the latest USDA numbers out of the way, all one has to look forward to, if higher corn prices is what you desire, is the planting intentions report the end of March and there isn't anyone that we've heard from that thinks that report will be bullish corn.

Looking at the improvement for corn plantings due in part because of the way the market has traded the corn/bean spread, chances are high that more corn will go in the ground this spring than we had last year. Informa's plantings guess on Friday shows we could plant 3.1 million more acres for 2010. If you throw on a yield of 158 we will harvest about 13.115 billion bushels while the current USDA's demand numbers has us using and exporting 13.070 billion. All things being equal the best we can hope for is a market that would trade just below $3.00 and just over $4.00 or something very similar to 2009. Now if you talk to Brock, Informa or Ag Resources and several others, they are all using yields over 160 bpa putting US carryout in the neighborhood of 2.10 billion bushels of carryout. That won't lead to a very pretty picture and should lead prices to the area everyone thought we would get to in early 2009 of $2.50-$2.25. Fundamentally the corn market is not in very good shape.

We are putting up the daily corn continuation chart below to illustrate what we could be facing in the weeks ahead. As mentioned above, a break through the $3.62 level will get us back to the long awaited filling of the gap at $3.50-$3.54. NFI has been waiting for this gap to be filled for months now and we just might do it this week. Such a close would leave the corn market is dismal shape with months of wide resistance over the market and with prices currently below all 6 MA's we will see more commodity funds liquidating long positions.

A measurement of this type of break out gives the market a possible move to $2.98 but that wouldn't occur until August or Sept. Based on technical analysis, things look a little different. Timing suggests a bottom to form by mid March and at a price close to $3.31. It all depends on how fast the corn market will fall. Of course there is the slight chance the funds won't sell and the $3.62 level holds in which case everyone in the corn world will be fooled and a swift rally would follow as shorts cover.

MEAL

Meals held in well with good exports and solid crush margins and demand. However, it looks like the funds are on the brink of hitting the meal with some of their long liquidation. This will be accelerated if the Dow Jones and crude oil continue to break and that looks very possible in the days ahead. We aren't overburdened with supplies in the domestic market but we are in the world market.

Our purchase order at $280 remains unfilled as the low of the week was around the $284 mark. We still view this level as a good purchase and it would bring us to 75% bought for 2010 meal needs. A 2-3 week bottom is going to have to be established before meal will have the timing to forge its way back to the major resistance at $320-$330. The SA crop grows larger every time you turn your computer on and the production numbers look almost unattainable.

MILK

A short-term top in the milk market looks to be forming and a move to the Fib retracement level at $13.87 seems to be forming. The best advance we see is for the front end of milk futures to rally to or just over $15.00. If we would close below the $13.87 level a further retracement to $12.10 could be seen.

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The best way to play the milk market in the near term is to sell rallies to or over $14.50 if the market price presents itself. With the market above all 6 of the moving averages (MA's) there still remains enough timing to see the front end move as high as $16.30 but the market needs better fundamental news to move that high and right now we don't have it.

If possible refrain from selling any milk if the market would move back toward the $12.40 level. Such a move puts mil in a buy area and a strong one at that. Corn should also be watched as it continues to drop. The maximum downside target we have on the front end is $3.31. Accumulating Dec 2010 corn from current levels to $3.60 should be in ones marketing plan.

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.