

NFI - Milk Market Letter

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MILK AND FEED USE MARKET LETTER

January 31, 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 and 25% at \$280. We will look to secure the other 25% 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. We were filled buying another 25% of 2010 meal needs at \$280. This puts us at 75% bought.

January 31, 2010

CORN

Corn lost 8 ¼ cent on the week and it marks the 3rd consecutive losing week in a row for the row crop. It took quite a while but we finally broke the \$3.62 level that held the market on breaks for the past 3 months and now the market will take a look at the 4 month old open gap at \$3.50-\$3.54. [The corn market has lost 15% off its value in just one month. Those in NY will be watching for an entry point in many commodities to improve the possible losses they may take in stocks for the first half of 2010.](#)

Let's look at what we are trading here. We have a US corn carryout of 1.764 bbu and a number that we've seen several times over the past 10 months. We have a poor demand market from an export view and the USDA could cut exports by 150 mbu. The market has a better feed demand market than any time in the past two years. While cattle numbers are down, hog and poultry numbers are up. Over all feed use should increase by 50-100 mbu in 2010. Ethanol demand should also increase by 50-100 mbu as ethanol plants are producing profitably with good margins. The corn market is facing an increase in acres of 3-4 million with a trend line yield of around 158. Many of the big named analytic firms are using the term "Trend line yield" very loosely as they are using yields of 160-164 for the 2010 crop. If their overzealous yields were to come true the US farmer would produce a crop of 13.50 bbu with usage of 13.10 billion and an increase in carryout of 4 billion would be realized or a number of 2.175 billion. Let's hope that doesn't happen unless you like prices in the \$2.50 area. Using a yield closer to trend line of 158 gives us a carryout around 1.900 billion.

NFI's analysis of both fundamental and technical considerations gives us a projection of a low in the March futures of \$3.31 in the time frame for a bottom the third week of March or so. The last time we made such a market call was last year for a bottom on Friday Sept 4th and a low of \$2.90. The actual low was seen on Tuesday Sept 6th (Monday was a holiday) ¾ of a cent lower than the 4th at \$3.06 ¼. Predicting bottom like this takes a lot of market research and luck and we had both last year.

The one caveat that could take corn prices to \$3.15 would be our analysis of the Dow Jones and financial markets. We've warned of a top in the Dow and we've now broken below the weekly MA's for the first time in almost a year and a half with the S&P closing below 10.90. There is a better than average chance that the Dow could move toward the 9400-9600 level over the next 3-4 months. This type of move could take corn as low as \$3.15 with an increase in corn acres and a yield below 160.

the next 3-4 months. This type of move could take corn as low as \$3.15 with an increase in corn acres and a yield below 100.

MEAL

Meal experienced its 8th weekly lower close in the past 9 weeks as the flood of bearish traders continues to grow with the every raising SA production guesses out of SA. Many have bean production in Brazil approaching 70 mmt. In previous years the largest production number obtained was 59 mmt. So we know that the world is going to be awash in bean, meal, and soy oil stocks and that's going to put more pressure on these markets for several more weeks.

Weekly meal stochs are at 21% and 10% and a market never turns when the spread between the two stoch numbers is larger than 9%. This means timing is negative and lower prices will be seen until the third week of February to the first week of March according to our timing and measurement. The long-term studies continue to suggest that corn, beans and meal are in long-term base building formations.

MILK

The front end of the milk market rallied to \$14.92 last week and the weekly continuation chart still shows that prices could still get as high as \$15.50-\$16.30. Such a move should be met with extended selling. The rally off the bottom has been strong and steady but many of the commodity markets are or have fallen 10-15%. One of the few exceptions to the other markets falling has been the milk market but as long as front end holds the \$13.87 level there is still room for better prices.

The US unemployment rate stands at 10.1% and it's widely expected that unemployment will climb in the next two reports to as high as 11%. This will be a drag on the fundamental thinking of many milk traders. However, there are other signs in the market that given a little more time, things not only in the US but world economies will improve dramatically. Capacity utilization along with raising profit margins for corporations should result in companies being able to employ more workers.

Unemployment and milk head size are the two most important indicators to watch that will either increase or decrease prices. For now we think prices will slowly move higher but long-term bullish timing is running out.

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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.
