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NFI - Milk Market Letter

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The following newsletter is being provided as an extended service to you for being a client of **Ag R**isk **M**anagers 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

We are now 100% purchased in meal for 2010 at an average futures price of $275.75.

April 11, 2010

CORN

The corn market gained 1.25 cents on the week but closed just above the five week low at $3.43 ½. The USDA reports reiterated that we have ample corn stocks to get us through the 2010 crop year and lower prices are yet in front of us without some sort of bull news and bull news will be difficult to find. The rumors last week that China could possibly be interested in importing corn was just a rumor. It seems they have more than adequate stocks and importing would have to come from weather problems in China's corn growing areas. NFI is already hearing analysts talking about better yields than 161 for the coming growing season and AgResources is talking a 2.400 billion bushel carryout as they through in yields of 164 bpa.

The USDA on Friday was kind in the sense that they didn't lower US corn exports yet but the trade feels they will have too by 25-50 mbu. Last week's export sales report at 53.5 mbu was one of the best we've seen in months. Demand looks topped out and there is little in the way of news at the moment to turn corn into a bull market. That will either have to come from weather or technical considerations once the market decides prices are low enough. We are seeing a pickup in demand as the market works lower but demand will take time. With the current carryout at 1.899 billion bushels it's not too difficult putting a carryout of 2.100 billion bushels on this year's crop under normal circumstances so the corn market will need to put in a three week bottom to see shorts moving out of the market.

Weekly corn continuation charts show we are moving into a low cycle timing period in corn. The key to a successful turn in the corn will be a selloff in the market to the bottom weekly Bollinger Bands (BB's) which currently sit at $3.29 basis May futures. NFI's studies show that when the market tests or drops through the bottom weekly BB when stochs are below 10% a bottom in the market is put in for a 10%-15% correction back up. The technical picture is in that area now and a quick flush of the market could produce such a bounce.

The recovery should take July corn back toward the $3.77-$3.82 level of resistance on the weekly studies and would represent an opportunity to make cash sales. Of course weather will have to be monitored to see if a more lasting rally would persist or if it's just a rally in a bear market.

MEAL

Meal gained $2.70 on the week as the USDA left the US bean carryout unchanged at 190 million bushels and the bean market wouldn't move lower. Even though we have record large world stocks of beans, we will also experience record world consumption of beans, meal and bean oil. The net effect is still larger carryout numbers but not large enough to send meal prices tumbling back toward $220 or $200. For the past several weeks NFI has believed meal is forming a long-term bottom and that's still NFI's belief. Crush rates are still very impressive as the weekly totals suggest and the USDA refuses to acknowledge a higher crush number for the yearly totals. We should see decent meal usage numbers for the balance of 2010.

The weekly meal chart below is no longer on its lows and the weekly stochs have moved off the bottom. If meal were to make new lows on the chart and trade below 248 we would see our first sign of weekly bullish divergence. Bottom weekly BB's are at $242.80 so any move to that level or lower looks like a terrific buying opportunity. If such a move would happen, NFI will be recommending beginning to purchase 2011 meal needs.

MILK

The Oct milk market closed virtually unchanged for the week and we have no longer-term studies that suggest the milk market is going to disappear to the down side. We haven't seen the herd liquidation in milk cows that we've seen in fat cattle but the market is holding up well. Unemployment numbers last week were unchanged and that's a good sign looking forward. Buyers confidence is also slowly turning more positive as most believe they will have a job next month which will add to purchases by the consumer that have fallen off since the 2008 collapse in housing and jobs. This means more milk

and cheese purchases in the future.

The spike bottom at $14.22 a few weeks ago should serve as a blow off sell point and good support in the market will be found at that level. In the weeks ahead we should see more base building in the market will drops back to the mid to lower $14 area as the daily studies are getting over bought. In fact a test of the spike low would be health from a confidence stand point so a sell off now is actually bullish and not bearish.

The outlook for milk hasn't changed from last week's stand where NFI believes rallies to or above $15.25 should be sold or hedged. The market looks trapped between $12.22 for maximum lows and rallies to $16.25 are still very possible.

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.

Thank You,

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