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The following newsletter is being provided as an extended service to you for being a client of Ag Risk Managers 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.

Fran, Lisa and Mar

May 16, 2010

## CORN

The corn market lost 8 cents on the week following what should have been a bullish report as the trade was estimating a much larger US corn carryout than the 1.818 billion the USDA gave us. The market lost 13 cents from the day of the report so let's not have any more decent looking reports out there. We can't afford it. The majority of the most bearish analysts who had corn carryout peg for last week's report at 2.1-2.4 billion bushels have now dropped their estimates to 2.0-2.250 billion as they expect an increase in plantings in the June 30<sup>th</sup> report to show an additional 1-2 million acres. They are keeping their yield estimates in the 163-166 area.

May corn went off the board at noon on Friday down 10 cents at \$3.56 ¼. That puts July futures on the top step and will now be the month to follow on the continuation charts. July closed 4 ¼ cents higher than May on Friday and the weekly continuation charts have the MA's at \$3.59 and \$3.60 so July is holding above those weekly MA's. This will be a very important week for corn as we could actually have three weeks above the MA if July futures can close above \$3.64 on Friday. On Monday afternoon we will get the first USDA report in corn's weekly crop condition. We're hearing corn will be in the 70% good/excellent range.

The weekly Dec corn chart shows that the market failed from the top weekly MA at \$3.97 and has pulled back 17 cents from that level. Weekly stochs are about to turn negative if Dec corn would close below \$3.77. The RSI is a neutral 42% but has turned lower so there will be early pressure this week on the market. With the monthly stochs at 28% and 31% there is still timing for a downside move in prices but NFI's research suggest that a drop to \$3.46 to \$3.53 would bottom this contract.



We see a maximum 34 cents down and once achieved there would be less than 20 cents down in the Dec market for the next 12 months. It's getting to the point where the risk/reward, based on technical studies, is growing poor for the bear. It's been 2 years and 2 weeks since the corn market has printed a monthly stoch at or over 80% and rarely does a week stoch get three moves to single digest without moving to 60% first.

## BEANS

Soybean futures settled slightly lower in a week lacking any significant market-specific news. The market remains bearish longer term, particularly with respect to new crop prices, but tight US old crop supplies will support July bean prices - particularly with a severe lack of producer selling due to planting. The US is the cheapest origin for China, which could produce some additional US export demand. Old crop soy supplies are tight - and it's too early to rule out that the July/November spread has reached its widest spread. NFI continues to believe the USDA is overstating old crop bean carryout by 20-30 mbu. Why they didn't reduce it at all in last Tuesday's report is a real mystery but we'll see if they can muster up a more reliable report next month.

May beans went off the board at noon last Friday at \$9.48 down 12 ½ cents and July futures will now be the lead month on the continuation charts.

The USDA's carryout number of 365 million bushels seems heavy (340 looks to be closer) but you can't argue with USDA supply/demand reports: you can try as we have in the past and it doesn't ever pay. That number along with the world carryout numbers should lead Nov

beans toward the \$8.80 level over time. Weekly MA's are at \$9.44 and \$9.34 as we start a new week and Nov beans closed Friday at \$9.26 so we're below all 6 of the major MA's. Nov held last week's lows on Friday at \$9.21 so a move through \$9.21 this week would keep the downtrend in tack and would make the studies look like Nov beans would sell down to \$9.08. Weekly stochs are bearish at 42% and 51% so the whole technical picture on Nov beans looks negative.



**FUTURE AG PRICES**

We've seen the corn, bean and wheat markets all drop significantly from the 2008 highs and no attempt to rally back to the 50% retracement level. Supplies have grown in all three markets over the past two years but demand has also increased dramatically since the turn of the century. Exports on the other hand, except for the beans which have enjoyed record setting demand, have dropped off sharply from previous years on a percentage basis. One way to see this on a chart is to look at the Dry Bulk shipping rates and see how rates have done in the past three years. This rate is determined by demand for dry bulk ships that carry dry goods such as grains and soy products. In fact the dry bulk shipping chart looks very similar to those of grain and soy prices.

As we've seen the US go through a terrible times in 2007-2008 with housing foreclosures, trouble in the auto stocks and banking problems, the world is now faced with rapidly growing debt problems in Europe. The Euro dollar crumbled last week and the move to the US dollar was seen in strength. Many of the European nations are facing bankruptcy issues and it's going to take quite a while to solve them but the world has gone through this before and once these problems are resolved world markets and world GDP have come back with double digit growth.

Exports in many markets have dropped off considerably since 2007 and it was due to the US crisis and will continue with the Euro crisis we now have at hand but things look rather bullish in the years ahead of us as these problems get solved. Demand for corn, wheat, steel, coal, lumber, cotton, oats, and cocoa have dropped considerably since 2007 but if the dry bulk chart can tell a story it should be that commodity demand is going to come back strong in the years ahead.

The Baltic Exchange Dry Index 10 year chart below shows what dry goods demand has done to prices over the past 10 years. It's a reflection of demand outside the US for commodities that ships in dry bulk such as most commodities are in dry form. The peak came in 2008 as corn; bean and wheat prices soared on demand and world tight stocks. We don't have that today due to over production and world financial problems. Out of 6 billion people occupying the surface of the globe, 2 million of those have just emerged from poverty levels and now enjoy indoor plumbing and something other than rice in their diets. They don't want to return to the "good old days" of poor diets, outdoor facilities and no spending money nor do governments want their countries to experience the chaos everyone is witnessing in Greece. Countries have cut back on what they would call luxury goods with ag products on the list and hence a much weaker dry bulk rate.

NFI's study on world GDP suggests that world GDP will increase to 4-5% growth by the fourth quarter of 2010. Lost demand for commodity produces will increase dramatically putting upward price pressure on the commodities we grow as demand increases to levels we saw 3 years ago. The chart below shows the dry bulk rates are languishing in a tight range well off the 2007 levels and it's these congestion levels that typically lead to upside breakouts and this chart is very similar to corn, bean and wheat futures prices. As monthly technical indicators move lower on the products we grow and large demand waits for even cheaper prices the demand picture will build ever larger.





You should put the Baltic Exchange Dry Bulk 'Index chart in your "favorites" and look for a bottom in this index to occur over the next 4-5 months. One stock that soared when the index had this big move was Excel Maritime Carriers (EXM). The stock rallied to \$80 a share due to huge dry bulk demand. Today the stock is trading below \$6.

**MILK**

Milk prices held steady for the week and it's amazing milk is holding this well right now. Most commodity prices dropped this past week and milk prices will typically drop following a drop in the CRB index. There was virtually no news out there for the milk market to trade off of and it could be the same thing in the coming week.

The daily October milk chart shows that prices are stuck within the top and bottom Bolinger Bands (BB's) and until we can move through either end the market will continue to move sideways. The bottom weekly MA is at \$15 and last weeks low was \$14.97 so a break below \$14.97 would create a very large Oct resistance area and a drop to \$14.22 would look realistic. same token, the market has traded to \$15.27 9 times and a close now above drive prices toward \$16. The big problem is that timing is negative and the market is trading below a 6 major MA's so the technicals suggest milk prices have a better chance to see \$14.97 broken and weaker prices.



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