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The following newsletter is being provided as an extended service to you for being a client of **A**g **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.

May 30, 2010

CORN
Another tough Friday as corn lost 14 ½ cents on the day and 10 cents for the week. The blow out was started by the Fitch Rating Agency lowering Spain's credit rating from AAA which sent most all commodities and the Dow Jones reeling to the downside. The corn market failed in a fourth attempt last week to get through the top monthly MA and finished the day bay falling through both the weekly and daily MA's to make it hurt even more. The Euro dollar fell apart sending the US Dollar soaring once again. Inflation doesn't seem to be the talk any more with Euro crumbling, unemployment still high and banks still borrowing money from the treasury at 0%.

The weather outlook doesn't hold any continuous hot dry weather patterns and decent rains seem to be the common belief. With a corn rating of 71% g/e the market is adding yield to this year's crop and larger carryout in the US and world stocks. The belief is also for an increase in planted acres of 1-2 million so things are growing worse both fundamentally and technically.

It's difficult to believe that the corn market is trading in the same range that began in Oct 2008 but the weekly continuation chart below shows that we are still in a wide trading range. With both weekly and monthly stochs and RSI's all trading in the mid 40% levels the entire corn market is neutral. From a technical perspective the market has a 50/50 of dropping 30-40 cents or rallying the same amount. NFI is neutral the corn market.

MILK
Despite the 2010 rally in US beef and feeder cattle prices, liquidation in the US beef breeding herd has continued at an elevated rate. US beef cow slaughter has existed at an average of 7,000 head/week more than in 2009 and an average of 10,500 head above the 5 year average. As seen in the graphic, year to date beef cow slaughter, expressed as a percentage of the January 1 beef cow inventory has been at the largest level in over 2 decades. Boner/breaker slaughter cow prices in the first 5 months of 2010 have averaged $6-7/cwt over 2009 amid stout demand for ground beef. Many cow/calf producers clearly remain unconvinced of the long term economics of producing beef type calves and have viewed the higher cull cow prices as an opportunity trim back or completely liquidate herds.

As beef cow slaughter has increased in 2010, there has been no indication of herd rebuilding. In January, NASS reported that the beef cow herd had shrunk by 1% while the inventory of replacement heifers had fallen by 2% from the prior year. And weekly slaughter data has shown a larger than normal percentages of heifers have been slaughtered so far in 2010, confirming minimal ongoing "she" retention. Further evidence of lack of producer enthusiasm for raising beef calves comes from the bred cow market. The market for bred cows began to turn lower in mid 2008, and has yet to fully recover. We expect that the July cattle inventory report will reflect another 1-2% decline in the US beef cow inventory which implies that enlarged beef production over the next 1-2 years can only come from heavier slaughter weights and that the US beef and fat cattle markets will be ultra sensitive to winter weather. The ongoing liquidation of the US beef herd will prolong the structural bull market in fed cattle into 2011.

Dairy cow slaughter also continues at an elevated pace in 2010. Midwest dairy margins turned positive in the 4th quarter of 2009, while producers in the west coast have operated at or below breakeven levels. This recovery in margins slowed dairy cow slaughter thru the first two months of 2010, but slaughter began to exceed 2009 starting in mid March and has remained so since. Year to date slaughter has totaled 998,000 head versus 1.02 Mil head in 2010, a 2.5% decline. The January 1 cattle inventory report reflected a 3% decline in the

dairy cow inventory and year to date slaughter as a percentage of the inventory is unchanged from a year ago at 11%. The replacement heifer inventory at the start of the year was 2% larger, so the elevated kill rate is logically reflecting refreshment of the US dairy herd. With select beef prices at historical highs, large dairy cow slaughter rates are assured & bullish longer term.

As NFI wrote about last week, milk prices have continued to drop after last week's failure of the $15.22 resistance. The weekly Oct chart below shows that we should now test the support level at the spike bottom of $14.22 and possibly a break of $14 as the timing is very negative. With most of the commodity markets dropping and the volatile financial market also moving lower we are in a time frame where rallies will be tough to hold together.

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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.

Thank You,
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