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MILK AND FEED USE MARKET LETTER

August 8, 2010

CORN

Corn finished the week up 12 ½ cents and up 2 cents on Friday despite the wheat market fa high in Friday night's session of \$8.41 to limit down at \$7.25 ¾. We've seen a massive chang sentiment from completely bearish to a more bullish stance. Many of the big analytical com gone to neutral from very bearish just a month ago. The droughts in Russia, Ukraine, and c Europe have change the demand picture on corn a bit with less feed wheat being imported l and more corn being considered. As NFI has written for the past several weeks, corn is the p crop in the world.

It's difficult to put a number on just how much will be shifted from feed wheat to corn in 20 seen articles suggesting the US could see an increase of as much as 100 million bushel increa exports because of the world droughts. We don't know if or when the USDA will recognize they are currently using 1.9550 billion as their 2011 export number. NFI believes it could be 2.0550-2.125 billion. There is little chance we will see an increase in 2011 demand in the Au and most are looking for an increase in yields on Thursday alone with minor reductions in 2009 balance sheet, which to them would increase carryout to 1.450 billion from the current NFI continues to believe that a yield higher than last year's 165 given in January can be exc conditions not as good as last year across the country. The US will have to see an increase in acres next year in order to satisfy what could be a strong demand year.

Position squaring will be the trade this week with the August supply/demand on tap. Funds long an estimated 250,000 contracts of corn and that could be a real problem for the marke comes in with a larger than expected yield/carryout. The trend in corn is bullish and it will Dec corn below \$3.76 to turn it bearish again. If the USDA keeps yields below 164 the corn should move higher and retest the \$4.34 level.

The weekly corn continuation chart shows that we've started the corn stoch distribution NFI about two weeks ago from the 90% level down to the 65% level. We believe that a top shoul

corn between \$4.32 and \$4.40 based on current studies. If given the right numbers, Dec should move back toward the support at \$3.84 before resuming the move higher.



If the report is bullish, NFI believes we will rally to the top monthly BB around \$4.60. This will entice many producers to increase plantings for 2011 by selling a good chunk of their 2011 production. Keep in mind however that the 23 year drought cycle lands in 2011. We'll have theory holds up.

MEAL

The meal market closed up \$2.70 last week with a good week in beans and the hot/dry weather in the southern half of the US. Temps will hit 100 degrees and high today but are forecast to drop at the end of the week. China's continued bean demand coupled with good meal exports have put the meal market at a point where a large top will form or a breakout to new highs will be mixed as we will describe later but the mood of the market has changed from bearish to bullish.

The weekly continuation chart of meal shows that we are now at a point where bearish divergence of several of NFI's studies could turn meal down sharply if the August contract can't close into the end of the week. We closed right on the Fib retracement level and stochs are moving to the 80% level. We should see meal move to \$319 but timing suggests a sharp move lower should \$320 be taken out then a move to last year's Nov highs can be seen at \$331. Support is at \$300 and a support at \$2.90.



For the longer term picture of meal a correction at this time that would take meal prices low second week of Sept bringing the weekly stochs below the 30% level would set meal up for a number one bull trade for next year based on 9 of our 10 studies on a technical view. It would be the wheat bottom NFI discussed several months ago. For those interested in meal as a user or spec looking for a good long term buy, meal needs to be watched over the next month to see that last leg lower and have the timing set up for a monster run.

MILK

We ran into the sellers on Oct milk futures right where we've seen it before at the \$15.22-\$15.08. Oct milk closed at \$14.92, down 16 cents for the week. Not much has changed fundamentally and no price changes coming we believe.

The weekly Oct milk chart shows the resistance point that we've now hit 8 times since March. It looks like resistance that can't be taken out by the bulls but NFI believes that the lows in Oct have been put in or are very close to having been put in. Timing suggests that we won't trade below \$14.50 and by the start of Sept a major bottom will be put in and a steady rally should begin. A move to \$16.30 signals a move to \$16.30 but a more sustained rally gives NFI a move in milk to \$19.20-\$19.40.

this can occur by the Oct or Nov.



OTHER STUFF

S&P 500 – The S&P continues to have problems when it runs into the resistance at \$11-25 to close above this resistance should give the S&P a rally to \$1174. If we top out here at resistance a drop to \$1095 and then \$1047.

WHEAT – We saw a huge range and limit down close on wheat last Friday but NFI's long term studies suggest wheat has a better than 65% chance to move into new highs before the final top is put in. The final top should come the end of August or early Sept.

CATTLE – This market has made a first top a few weeks ago but this market should make a second top before the end of the year. The cattle market looks negative on our studies for 2011.

HOG – This market is overcooked and will be forming a top before the end of the year for a lower price in late 2010. Any move on the front end of the hog market to or over \$90 is a sell.

US DOLLAR – Every bull out there has almost evaporated and the market moved below NFI's \$82.50. The \$76 level is the next solid support.

Thank You,
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