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MILK AND FEED USE MARKET LETTER

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CORN and BEANS

Last weeks corn price performance would be the definition of what a bad week is. We started the week with huge short covering only to be followed by massive fund liquidation. Corn lost 23 cents on the week while Nov beans gained 56 ½ cents. That spread along was huge and put big resistance into the corn market. Good rains were seen in the upper Midwest and it hit many areas that had been growing dry. The weather reports that come out around 5:00 PM will now be a key to where the market moves early this week. Many believe we will see large moves in corn and beans on Sunday night and Monday because of the forecast to come.

This Wednesday we will get a look at what the USDA is feeling about the size of the US corn crop. Below are the average trade guesses from private crop forecasters for old and new crop corn and bean carryout, production and yield.

2008-09

	Average	July 2008-09 Range	2007-08 USDA	USDA
Corn	1.746	1.600-1.820	1.770	1.624
Soybeans	0.106	0.090-0.115	0.110	0.205

2009-10 Carryout

	Average	July 2009-10 Range	USDA
Corn (1.701	1.517-1.892	1.550
Soybeans	0.221	0.145-0.305	0.250
Wheat	0.737	0.638-0.812	0.706

Total Production

	Average	July 2008 Range	USDA	Production
Corn	12.496	11.792-12.814	12.290	12.101
Soybeans	3.213	3.000-3.275	3.260	2.959

Yield

	Average	July 2008 Range	USDA	Yield
Corn	157.1	153.0-160.3	153.4	153.9
Soybeans	42.1	40.9-43.5	42.6	39.6

Don't be shocked about the corn carryout of just 1/701 billion for new crop. The trade is estimating the USDA will give us a 157.1 yield in this report and that number will only increase in coming reports to get yields to 163 bpa. They believe the USDA will lower bean yields from 42.6 to 42 bpa but will more than likely increase with good August weather. The trade will use the old adage that big crops will only get bigger and that fits, so far, in this years growing season. The only way to get a bullish report out of this is if the USDA would come in with carryout in corn below 1.550 billion or a yield less than 156.

Bean demand is the best we've ever seen and it continues even in Aug. Old crop bean carryout could easily be below 100 million bushels but I've never seen the USDA print such a low number. Demand has an immediate affect on new crop carryout and the trade believes the USDA will lower new crop carryout from last months 250 mbu to 221 million in Wednesdays report using a 42 bpa yield. I don't see, at this time, how the bean report could come out negative but we'll see.

PRICES GOING FORWARD

There will be tremendous volatility in both corn and bean prices for the next 6 weeks. My timing for a bottom in the corn market since I wrote about it in January of this year has always been the end of the third quarter, which put my timing around the end of Aug to the first week of Sept. AT this time my timing looks to be right on. The big question is where will corn prices be when timing looks like it is bottoming. That's a tough one because we don't know the money flow of commodity funds but the way I measure markets it looks like Dec corn should see prices between \$3.04 and \$2.83. Such a drop would take month's stochs to 4% and 6%, which is good enough for me on timing. I continue to see a large turnaround in corn demand along with ethanol usage, and strong technical (chart) outlook. At these lows the sellers will ask themselves how much money they think they can make by being short. The risk/reward will look lousy for the bears. The recovery top would be even harder to measure so I won't. That's all a matter of time and price to determine a top.

The bean market timing, demand, and technical picture are completely on the other side of the fence. Timing is bullish and if the weather doesn't cooperate we could see an explosive bean rally into the middle of Sept. Funds are long beans but it's not a large position. They also like the meal market but are short in the bean oil market. At this time US bean exports are 45 mbu higher than what the USDA gave us last month. I believe the USDA will recognize the strength in exports but will drop residual or industrial use to off set the export picture.

Beans will not continue to move higher with the corn market continuing to move lower. At some point all those that are long beans and short corn will reverse their spreads and that change should also come sometime in Sept or Nov. It should be very difficult to see Nov beans stay below \$9 very long. For many months I wrote that beans were a long-term buy if Nov could get down to \$8.30-\$8.40 but we only dropped to \$8.80. I would think Nov beans could move as I as \$11.40 once Sept bean futures expire. Unless we have one of the most outstanding ends to a growing season we've ever seen, bean stocks here in the US will remain very tight.

We will not chase corn lower with any cash sales and will look for the Nov beans to continue higher for a while to sell more new crop.

MILK

This week the milk market had a successful hold of the contract low on the Dec futures at \$13.10. The Monthly stocks are in a W formation, which from a chart study is typically bullish. The fundamentals of the dairy industry are still troublesome but markets always bottom before the fundamentals completely turn. We have seen a drop in the dairy herd but not as much as many in the industry would like to see. World economies are turning much more positive than we've seen them in over a year and analysts in the US have called for a bottom in the US recession. Don't get me wrong, there are still many problems out there to over come but the bulk of the worst is behind us. Now it's finding enough good information to get the naysayers off the short side of the market. I'm sure they are looking at the market action and asking themselves just how much more money can be made on the short side of milk futures and are seeing that the risk reward is not very good anymore.

A recovery in milk should be as high at \$15.35 with an outside chance to see Dec futures trade as high as \$16.65. If the lows don't hold I anticipate a drop of not much more that 50-75 cents and that will be very short lived.

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