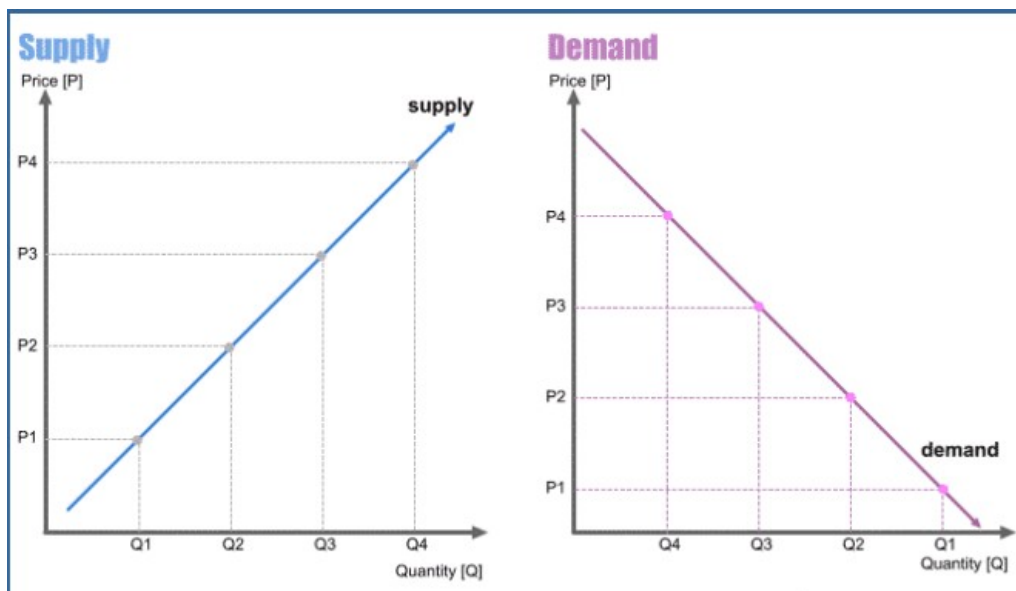


Supply and Demand Trading

Supply and Demand is the heart of a market economy [Capitalism]. Since market economy is based on exchange of goods and services for a value, for it to function there has to be some goods and services on offer [supply] and people who are willing and able buy them [demand]. Supply and Demand in textbooks look as two separate things for study purposes but in reality they are strongly interconnected. One cannot exist without the other.

In an ideal open market, prices are defined by supply and demand, creating a base framework for allocating resources in the most efficient way possible. However, in reality this is not always the case. Monopolies and regulators in certain sectors or systems can define prices as they like regardless of buyers. Prices may also be manipulated by speculators unnaturally thus overriding basics laws of supply and demand.

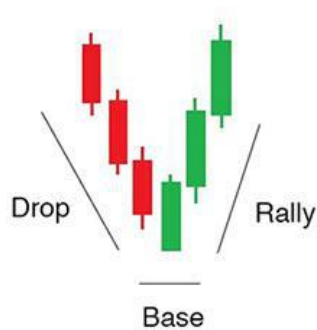


As it can be seen on the above illustrations, suppliers will produce more when prices going up while buyers will increase their demand when prices are going down. A clear conflict of interest supposes to create a healthy and efficient market.

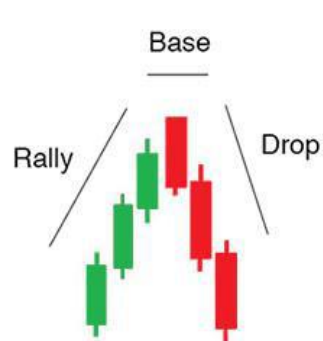
That's in theory, but in reality we know that there are situations when prices are going up but suppliers will not increase their output unless there are healthy competition. Or buyers will not increase their buying even if prices are going down when they don't have a buying power.

CHAPTER 1 UNDERSTANDING BASIC PATTERNS

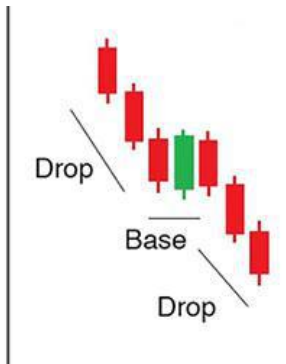
DBR forms the DEMAND ZONE



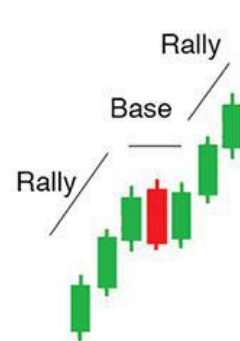
RBD forms the SUPPLY ZONE



DBD forms the SUPPLY ZONE

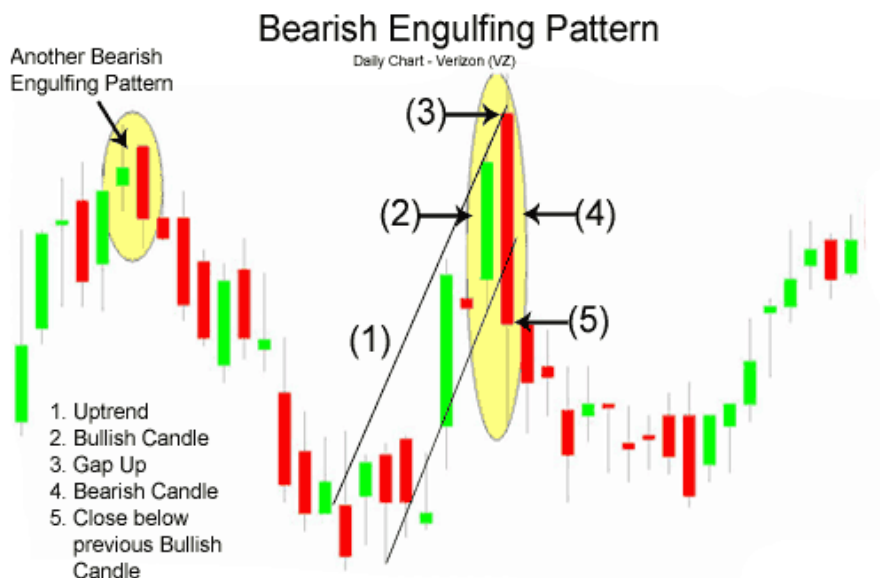


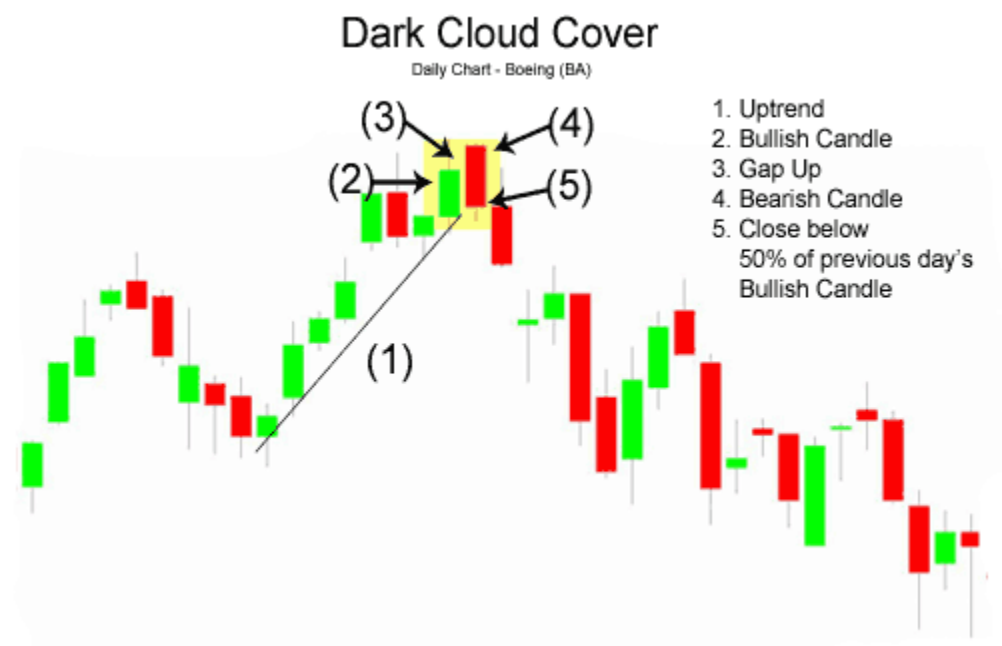
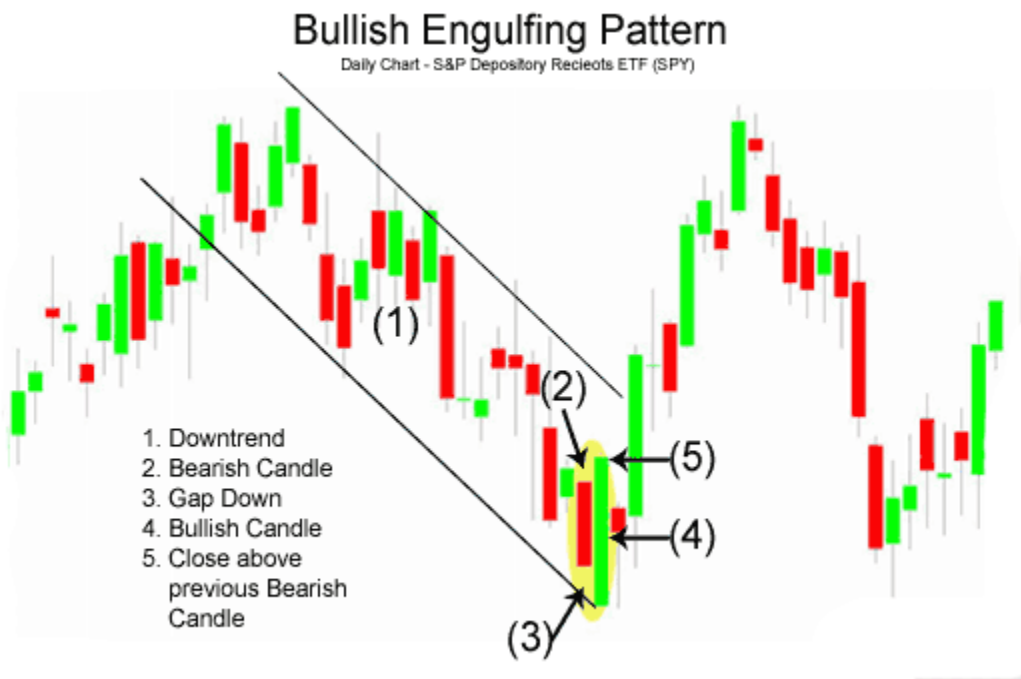
RBR forms the Demand ZONE

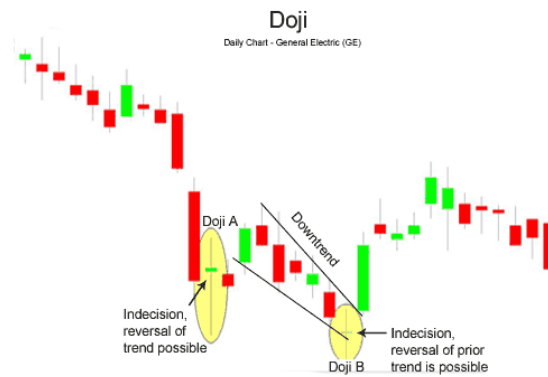
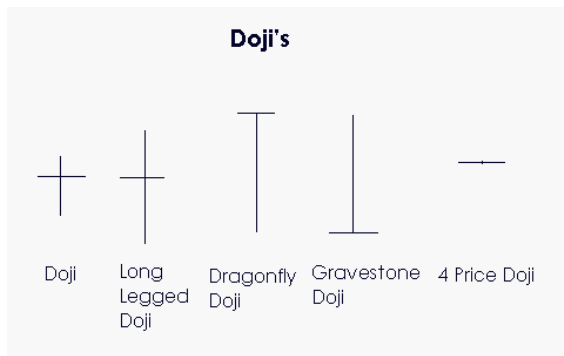


(Note: The last alphabet can help us to remember - D is Supply and R is Demand)

RBD



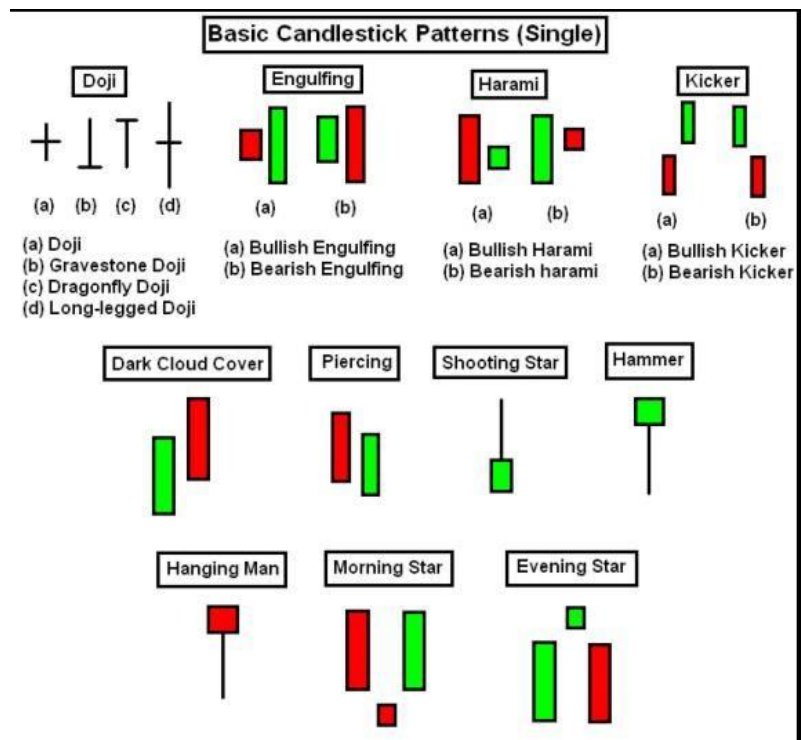
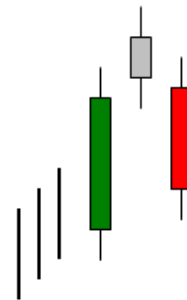




Morning Star



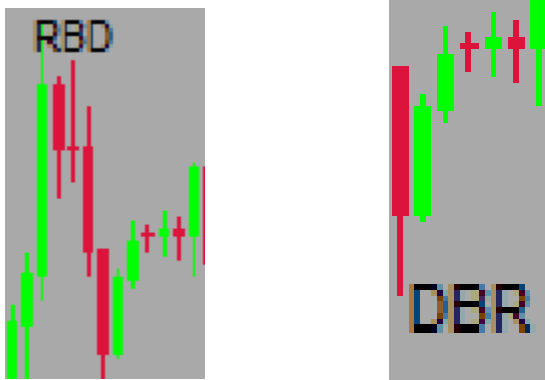
Evening Star



CHAPTER 2 *THE GOLDEN RULES OF SUPPLY AND DEMAND TRADING*

1. ALWAYS SELL AT SUPPLY
2. ALWAYS BUY AT DEMAND
3. ALWAYS LOOK TO THE LEFT OF THE CHART

We can confirm the trend of the CS whether will form a SUPPLY or DEMAND zone by ensuring there is a **significant** drop (for Supply) and rally (for Demand) from the base area it has just formed (the significant CS exceeds the close or open of its previous CS). With this we now know that the new area of Supply or Demand has formed. Begin drawing all the zones on the chart; identify each of the zones and CS types.



Once the demand or supply zone has been drawn, the area can be further refined by looking at the lower Time Frame (TF). This will then lower the Stop Loss. Stop Loss is placed slightly above the supply or demand zone. The Take Profit (TP) area can be identified by looking at the chart and identifying all the areas of supply and demand in conjunction with OANDA order book. This will help to gauge the area better as OANDA shows the high liquidity area with many traders have Sell or Buy limit positions.

Do not buy or sell outside the Supply and Demand area as these are the areas where many normal traders usually have their Sell or Buy stops (Stop losses).

OANDA Forex Order Book

A 24-hour summary of open orders and positions held by OANDA's clients



BLUE AREA: STOP ORDERS or STOP LOSSES

ORANGE AREA: LIMIT ORDERS OR TAKE PROFITS



OANDA order book shows the current positions of all open and pending orders (20 Minutes delayed). **Open positions** mean the already market executed orders. **Open orders** are the pending orders yet to be triggered. The lines represent the volume or liquidity. The longer the line, the bigger is the volume or liquidity in that area. In the Open Order area, if the Blue and Orange lines are long and are at the same place, we know that area is very highly liquid and our decision to BUY or SELL can be based on that.

CHAPTER 4 FAILED TO RETURN (SHARP ENTRY POINT) STRATEGY

RULES OF FTR

1. RBD / DBR - Look for Double Marubozu (DM). Begin with a higher TF and move to lower TF. If no DM, look for Doji.
2. The price exits Supply Zone (going lower than the 2nd DM (CS) and tries to re-enter but fails. This is called **FTR** or *failed to return*. The supply or demand area now becomes the "*price cap*". The FTR CS is the CS with the shadow that is the closest to the supply or demand zone but has not penetrated it.
3. Confirmation of a valid FTR is that, the down trending price breaks the initial supply or demand area and forms a new supply or demand zone (zone 1 in the diagram). This is called engulfing which makes the FTR valid.
4. The area between the shadow CS and the supply or demand zone (opening of the DM) is called the "light tunnel" is should be between 5-10 pips. This is the "Sharp Entry Point". The supply or demand zone can become smaller by focusing on smaller TF as low as 5 Mins. 1 Min is not recommended.
5. The stop loss must be kept at a minimum as low as 10 pips if possible. As the price hits the supply or demand and trends down, re-adjust the Stop Loss.
6. TP is at the next demand zone below zone 1 which has already been exhausted by the initial downward moving FTR price (Engulfed).
7. With this combination, the FTR setup usually moves up as compression (CP) to the supply zone before rapidly spiraling downwards. Normally this happens as there is News or announcements and Traders are cautious and take the sideways approach. The TP for CP is the initial CP point.



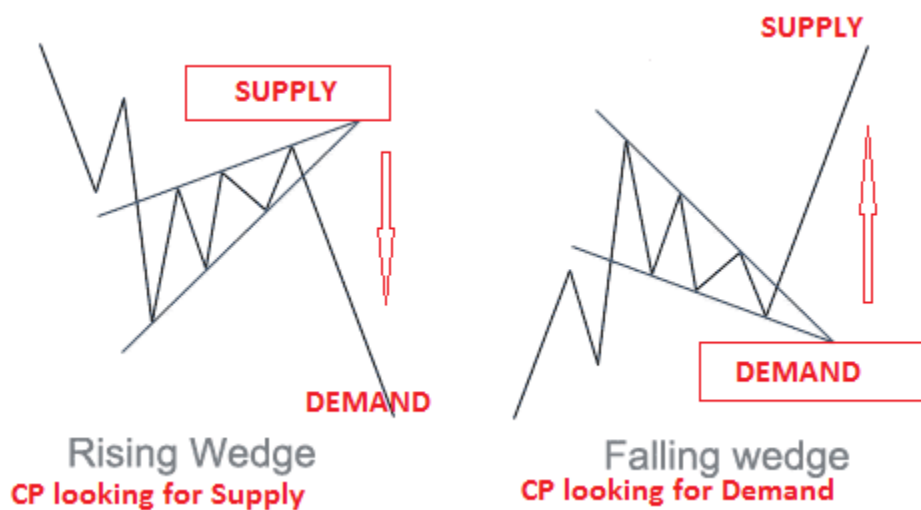
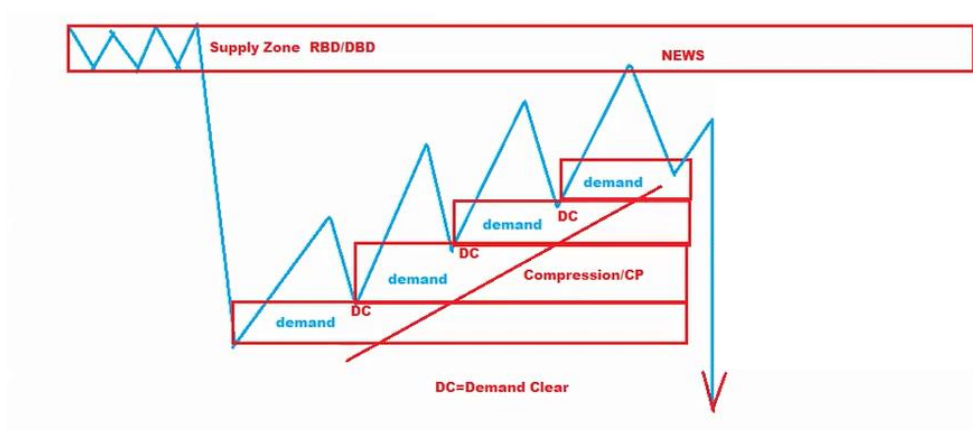
NOTE: The GAP in the SND chart represents FTR or the Light Tunnel. This is the supply or demand area which has not been used yet.

CHAPTER 5 COMPRESSION (CP)

Compression (CP) is a type of price action which signifies the reversal of price trend. CP is confirmed by the type of wedges it makes either downward or upward wedge. In each case, demand or supply is being cleared reaching the point of ZERO SND. The angle of CP must not be beyond 45° which can be mistaken with an upward or downward trend. CP leads to the ZERO demand or supply at which point the price jumps into the high liquidity area which can be mapped on the chart and cross reference to OANDA forex order book. This area becomes the TP point or the TP can be the point of beginning of the CP as some traders prefer.

Strategic entry point is to place a pending order either at the supply or demand area closest to the zero wedge SND area as mapped in the chart. Pending orders can also be made in multiple layers with small quantities

Compression - Price falls due to supply zone being breached combined with news release





Below is an example of high supply and zero demand

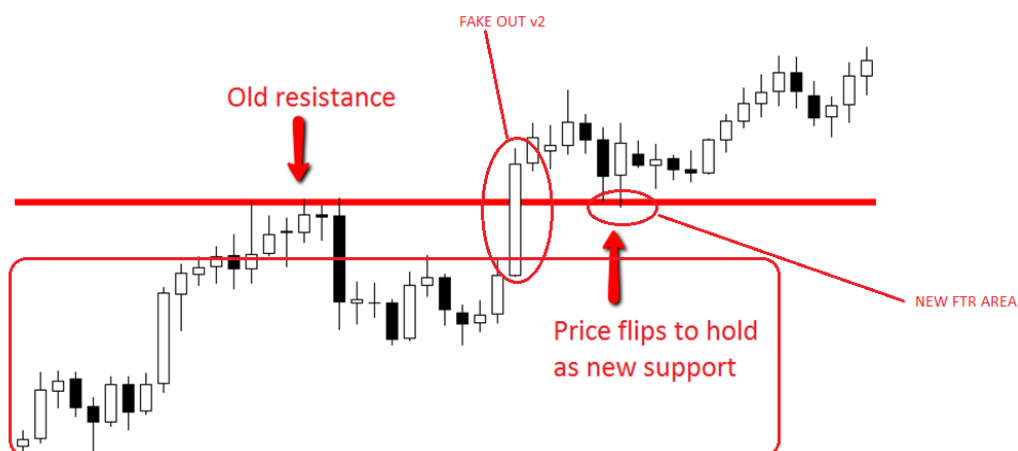


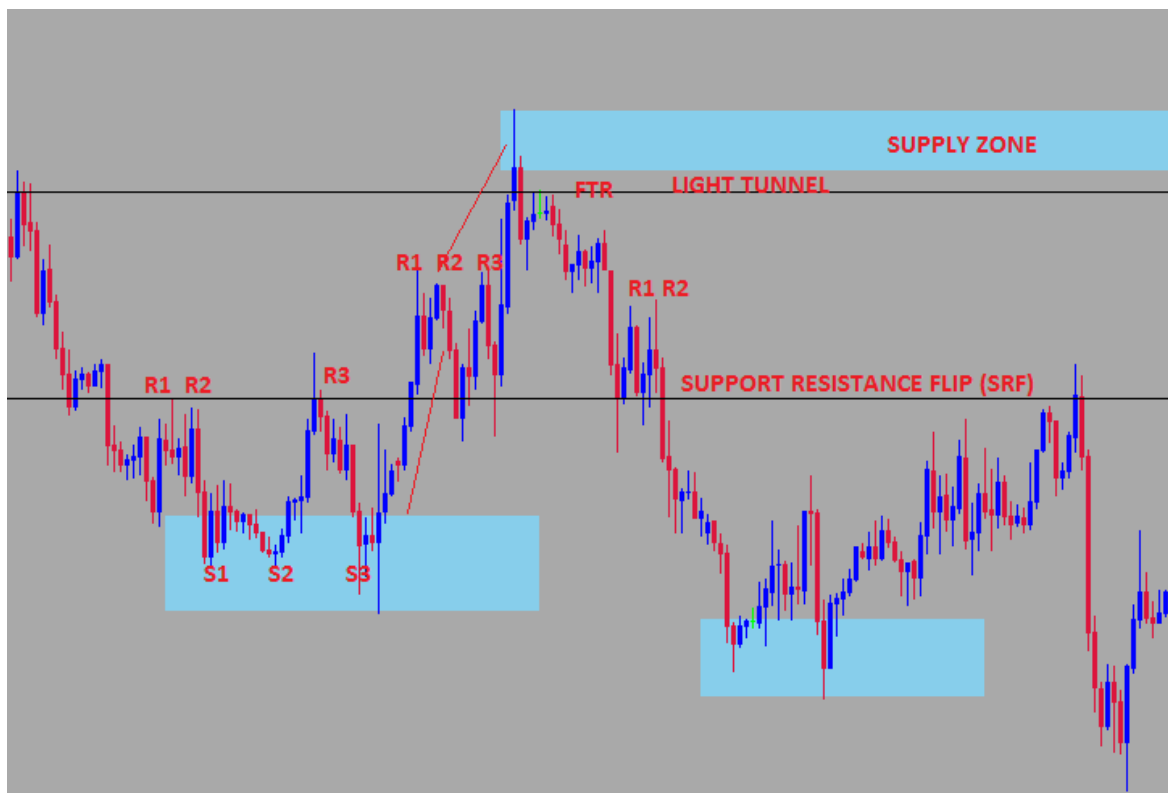
CHAPTER6 FAKE OUT (FAKEY) VERSION 1 AND 2

1. Fake out or Fakey is formed when Support and Resistance traders are hoping for the support or resistance area being tested to be broken after several tests (usually 3 times- **R1, R2 and R3**). Buy and Stop orders are placed on the immediate supply and demand area, making the area highly liquid. If the SND area is not liquid enough, the fake out will not happen. In most cases, after about 3 attempts the price will move to the closest SND area then quickly moves back to the next opposite SND area to fulfil the orders at that area. This is called Fake Out version 1.



2. Fake Out version 2 happens when there is SBR (support becomes resistance) or SR Flip (SRF). In this type the sequence is *SUPPORT – BREAKOUT – RESISTANCE* (SBR for ease of identifying). The SRF will normally form a new FTR area. Pay close attention to it.





Resources:

OANDA Forex Order Book

<https://www.oanda.com/forex-trading/analysis/forex-order-book>

Free Telegram Channel (Education, advice, signals and more)

t.me/daytrade4x