

MARKET MECHANICS

MODULE OUTLINE

- 01 Terminology
- 02 Introduction
- 03 Swing highs and lows
- 04 The nature of liquidity
- 05 BSL / SSL: buy and sell orders around swing highs and lows
- 06 Order matching
- 07 Conclusions

TERMINOLOGY

Trend - a market tendency that develops as a result of buying and selling.

Liquidity - the ability to buy or sell an asset.

Support level - a reference price level for buying that acts as an area where liquidity accumulates.

Swing - a price high or low that is significant within a particular structural move.

Large market participant - exchanges, funds or wealthy traders (in crypto markets), and central banks and their interbank algorithms (in Forex), with substantial funds or assets that make it possible to manipulate an asset's price (in crypto markets).

Resistance level - a reference price level for selling that acts as an area where liquidity accumulates.

TERMINOLOGY / CONTINUED

Sweep / Raid - a false break of highs or lows intended to create a manipulation.

SSL (Sell Side Liquidity) - liquidity on the sellers' side (external liquidity for buying, which serves as a target for sellers).

BSL (Buy Side Liquidity) - liquidity on the buyers' side (external liquidity for selling, which serves as a target for buyers).

Fractality - the ability of price to repeat identical price movements across different timeframes.

INTRODUCTION

Market mechanics consists of many technical variables that influence how price movement develops. In this lesson, we will discuss the technical side of analyzing an asset's chart data.

SWING HIGHS AND LOWS

Swing highs and lows are the price peaks and troughs that are given priority when identifying a trend.

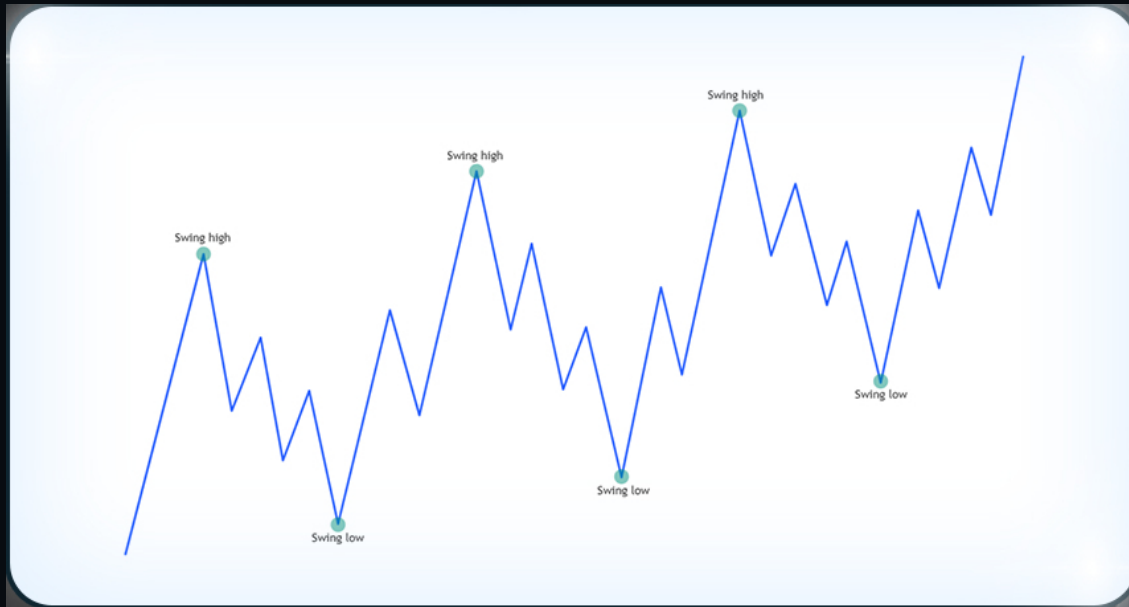
A swing high forms when price reaches a maximum on a particular timeframe relative to the previous one.

A swing low forms when price reaches a minimum on a particular timeframe relative to the previous one.

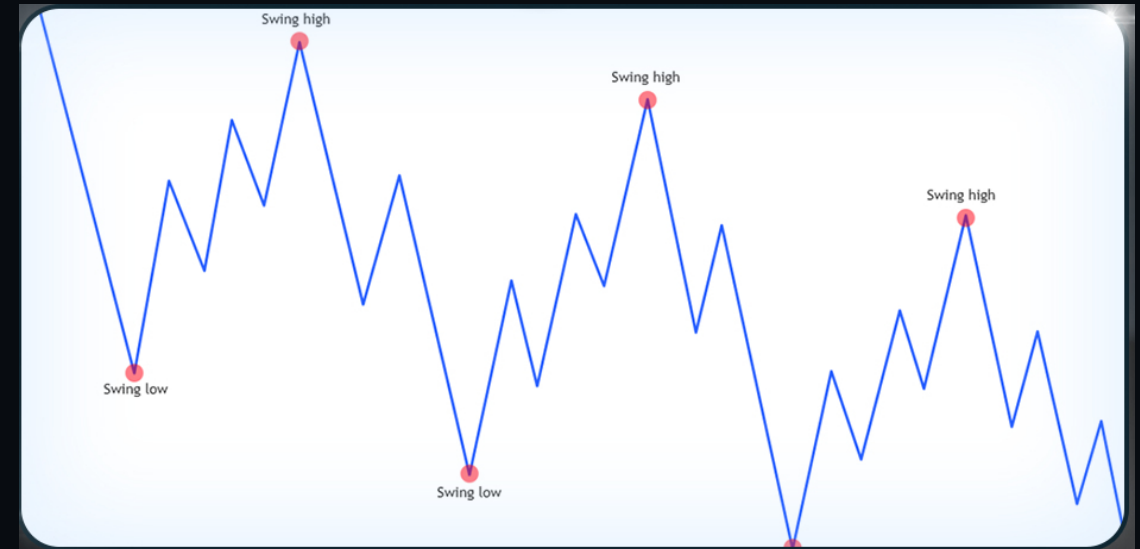
When price highs and lows rise, the advantage lies with buyers. When price highs and lows fall, the advantage lies with sellers.

READING SWINGS

Schematic example: rising swings



Schematic example: falling swings



On a chart, a swing has specific criteria that must be met to fully validate the formation of a swing high or low.

A swing is a fractal candlestick pattern formed by three candles. It indicates a market reversal or the start of a corrective move.

THE THREE-CANDLE PATTERN

A swing high is formed by three candles. The highest candle is in the middle; the candles on either side have highs below the high of the middle candle.

A swing low is formed by three candles. The middle candle is the lowest; the candles on either side have lows above the low of the middle candle.

Schematic example

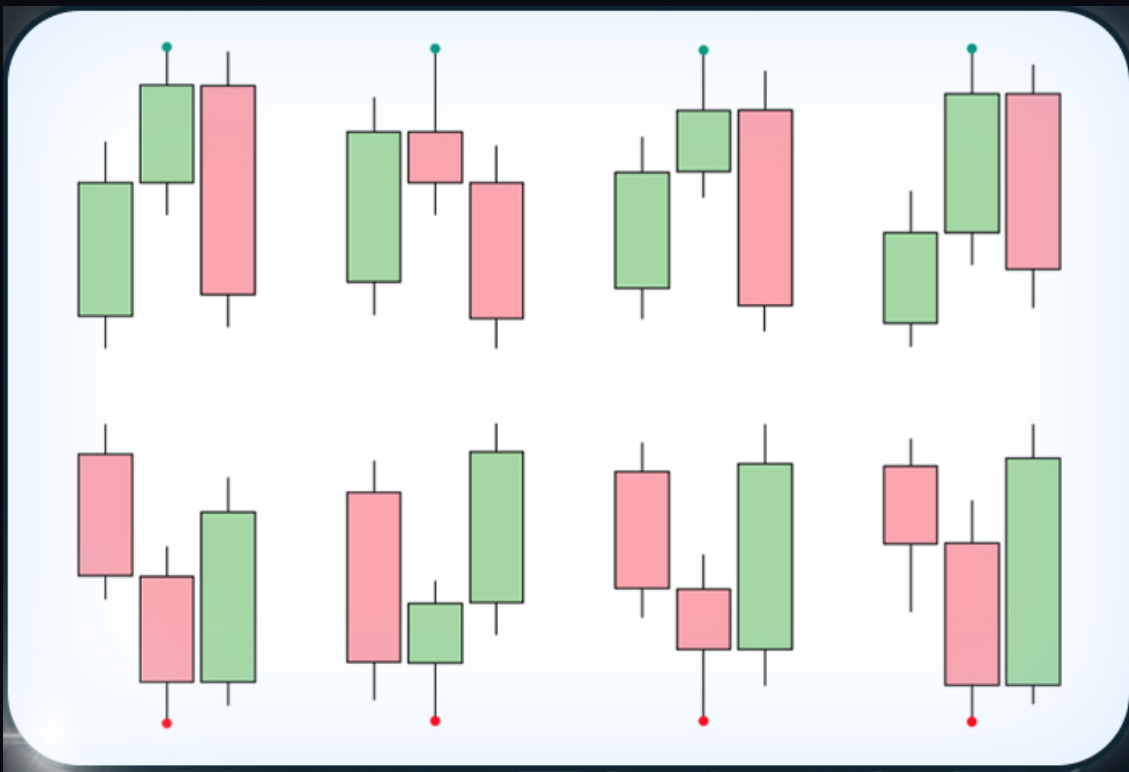
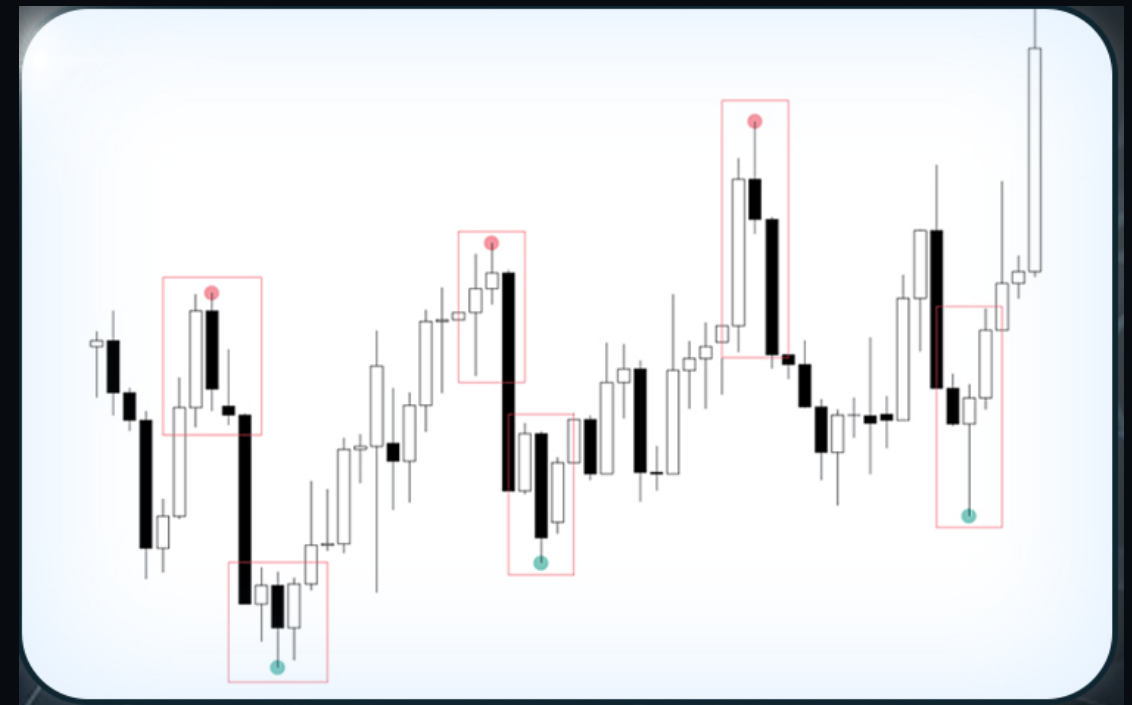


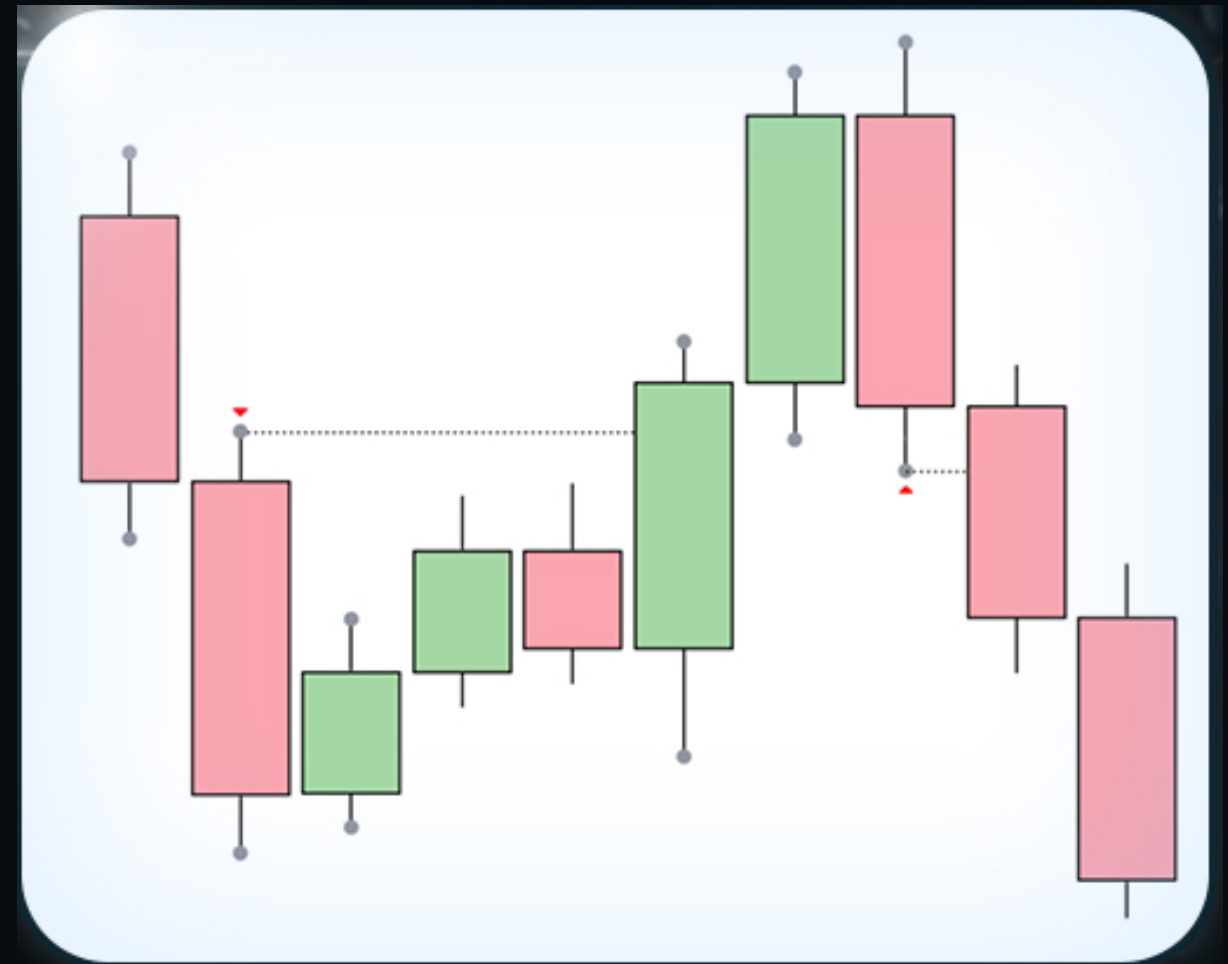
Chart example



VALIDATING A SWING

To confirm that a swing is valid, we consider the price action through which the movement develops on the chart.

A swing is a fractal candlestick pattern formed by three candles. It shows a market reversal or the start of a corrective move.



CONFIRMING A CORRECTION

A correction relative to a newly formed swing is taken into account when subsequent candles move beyond the boundaries (the wick) of the middle candle. This local confirmation should make it easier to understand how a correction forms between swings.

NOTE

Candles form according to the range traded. This rule should make it easier to understand how swings form.

For example, candlestick formations may lie within a narrow price range, and the swing itself may consist of a combination of doji candles (that is, candles without bodies), or of candles with very large bodies:

EXAMPLE



A VALID SWING LOW

In this example, after a swing low formed, price spent a long time without moving beyond the swing range to continue the move (the dotted line). Only after price moved beyond the middle candle of the swing do we get confirmation that a valid low (swing low) has formed.



THE NATURE OF LIQUIDITY

To execute a trade to buy or sell an asset, opposing orders are needed. The opposing order for a purchase is a sale; for a sale, it is a purchase.

There may not be enough opposing buy or sell orders for the required volume of an asset at a particular price. In that case, the total volume has to be split according to the supply currently available in the market, and prices will change depending on that supply.

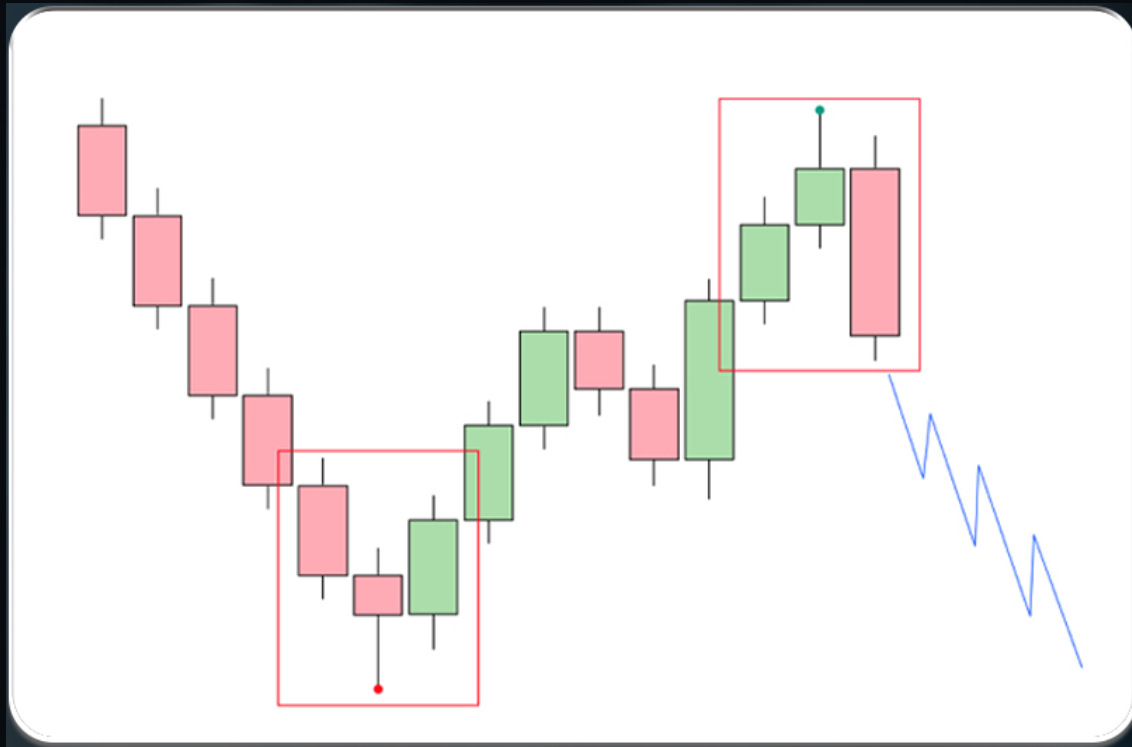
In practice, market liquidity is formed by the presence of enough buyers and sellers placing their limit orders in the order book.

VOLUME AND THE ORDER BOOK

A large volume in the order book does not guarantee that a particular price range will not be breached. The order book is subject to manipulation. Suppose you place a \$200,000 limit order to buy an asset at a particular price, and the order appears in the order book. Five minutes later, you decide to remove the limit order, and it disappears. In this way, large participants can manipulate the sentiment and decision-making of most traders who use the order book.

When price falls (the asset's price becomes lower), stopping that move requires enough buying volume to meet the selling volume. When that volume appears in the market, the price decline stops. Buyers gain the advantage, and a swing low forms, establishing a price minimum.

BEYOND SWING HIGHS AND LOWS



The main volumes of opposing orders form beyond swing highs and lows, because this is the range where enough volume appeared to halt the rise or fall in the asset's price. Together, these orders form Buy Side Liquidity and Sell Side Liquidity - BSL / SSL.

LIQUIDITY IN TRADING

HOW IS LIQUIDITY USED IN TRADING?

1. Liquidity, taken on its own, is not an entry point for a position. This topic will be covered in the Advanced package, under “Order Flow”.
2. We cannot know with certainty, but we can make assumptions about which liquidity price will move toward.
3. Liquidity is a “fact”, not a “factor”. We cannot rely exclusively on liquidity in our work.

We will use liquidity as a trade target: a level where the position will be closed. Later, we will learn to use liquidity as an entry point for a position in the “Order Flow” topic in the Advanced package.

BSL / SSL

BSL (Buy Side Liquidity) - liquidity as a target for buyers.

SSL (Sell Side Liquidity) - liquidity as a target for sellers.

These are substantial pools of liquidity in which market participants' limit orders to buy and sell accumulate.

BSL / SSL CAN BE:

1. The absolute highs and lows of local or broader accumulation ranges.
2. Sideways movement (a trading range).
3. Movement relative to a correction.
4. The previous week's or day's highs and lows.

We will examine these tools in detail in the following lessons. After these levels are taken out (breached), price often reverses - that is, after the target of the opposing orders is reached.

BSL / SSL ON THE CHART

Schematic example

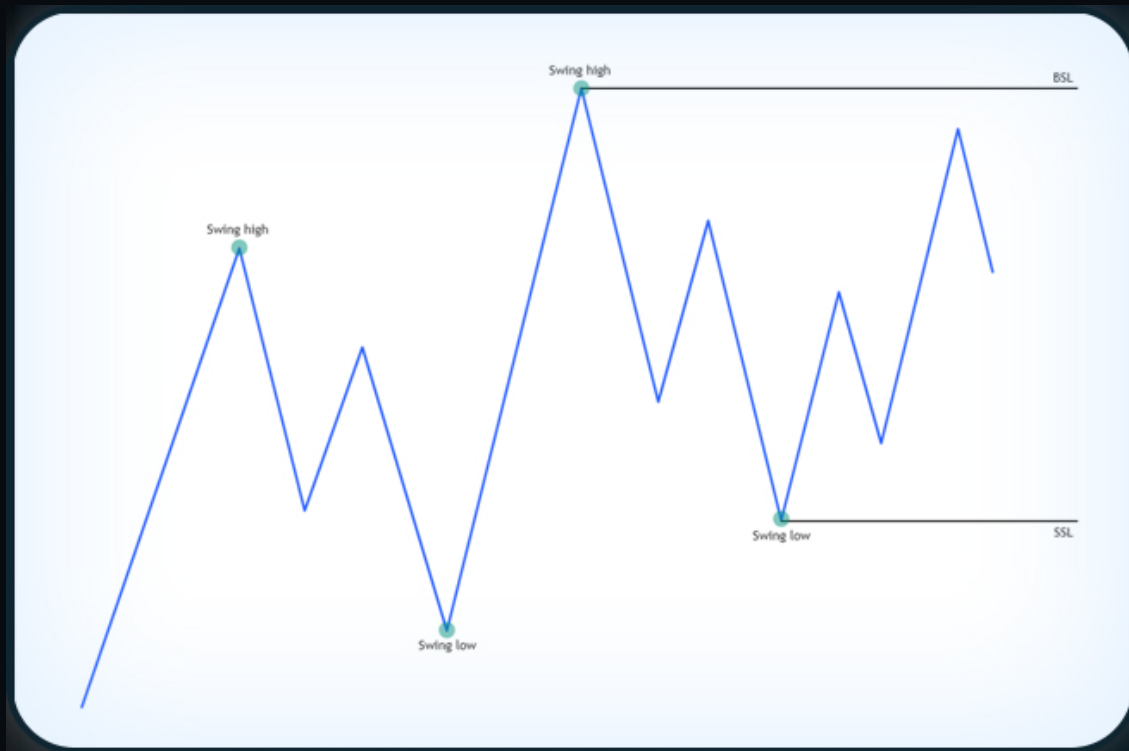


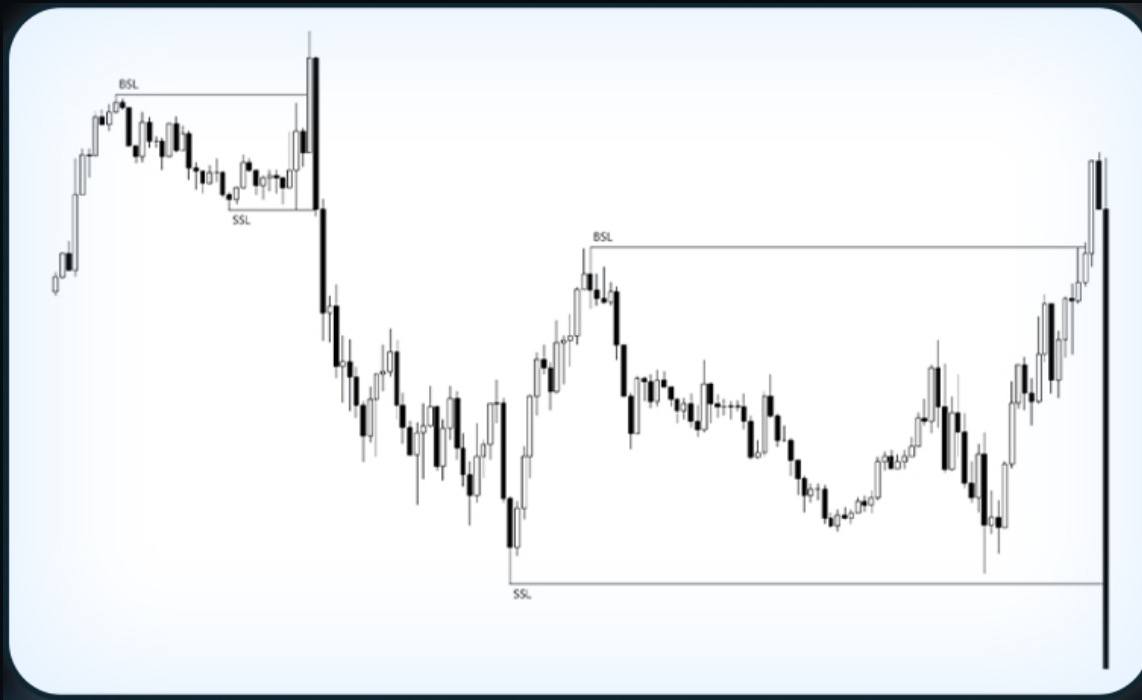
Chart example



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LIQUIDITY AS A TARGET

Chart example



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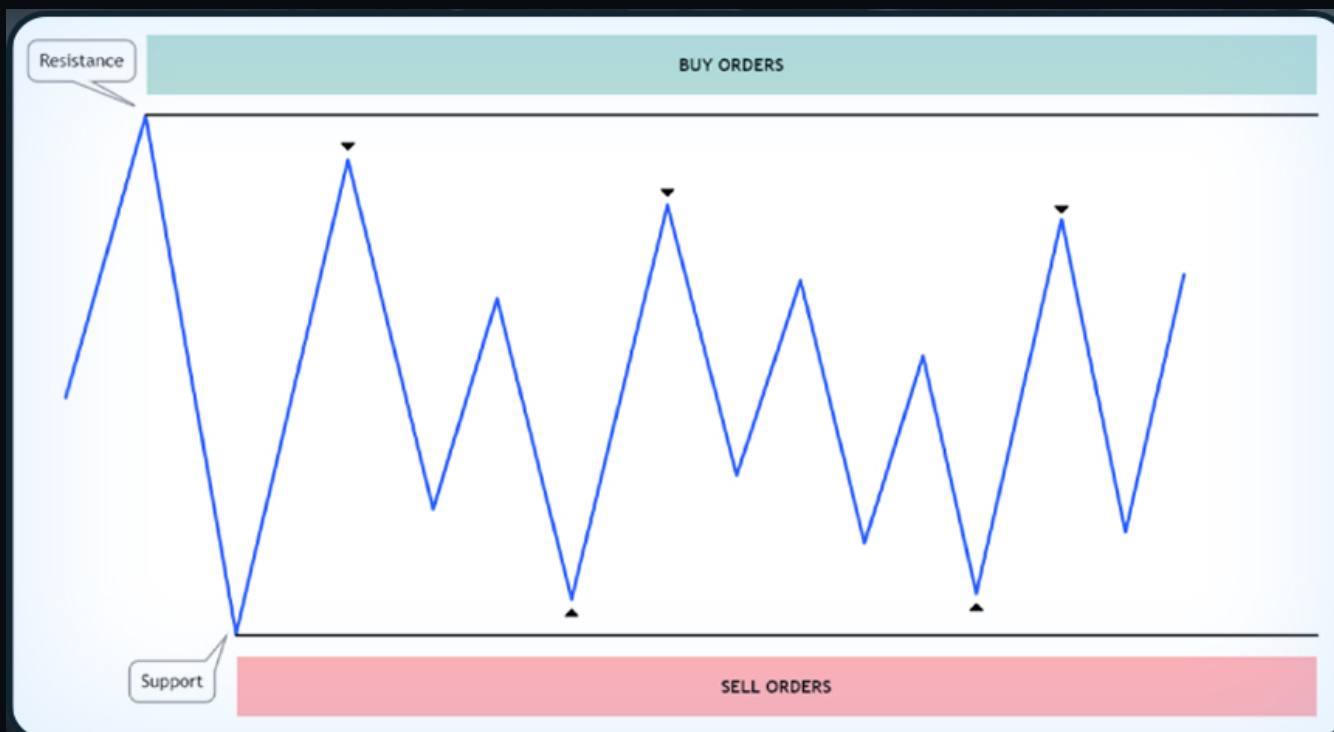
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ORDER MATCHING

In classical technical analysis, support and resistance levels are a key tool for finding an area in which to open a position.

The logic behind this tool is that price stays within a particular price range without moving below the established boundaries. Market participants place their orders in these areas.

Schematic example



In this example, liquidity accumulates above the highs and below the lows. Our task is to wait for one of these levels to break and watch how price reacts.

WATCHING THE REACTION

Chart example



We watch the swing high and low areas - BSL / SSL - for a possible reversal. Active order matching within this range can bring the price movement to a halt.

SWEEP / RAID

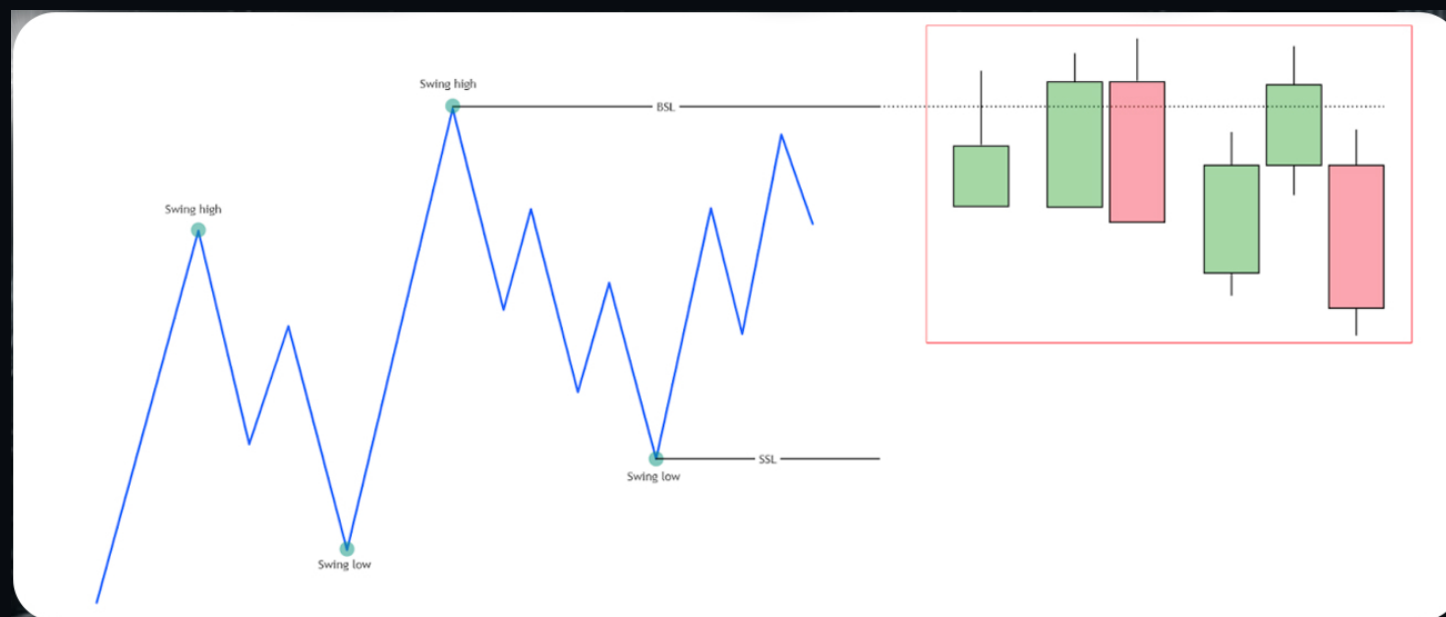
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Sell orders - buy position

Buy orders - sell position

Manipulations in BSL / SSL areas are referred to as a Sweep or Raid (terms used by traders).

Schematic example of a liquidity sweep (Sweep / Raid)



LIQUIDITY SWEEPS IN PRACTICE

CHART EXAMPLES



In most cases, price sweeps liquidity in a single move. It looks like a simple “piercing” of a level, visible on the chart as the formation of a wick.

THE IMPULSIVE MOVE



In some cases, an asset may trade above an area of accumulated liquidity before an impulsive move follows. This impulse indicates order matching within that particular price range of accumulated liquidity.

BUILDING A LONG POSITION

Schematic example of order matching to build a long position

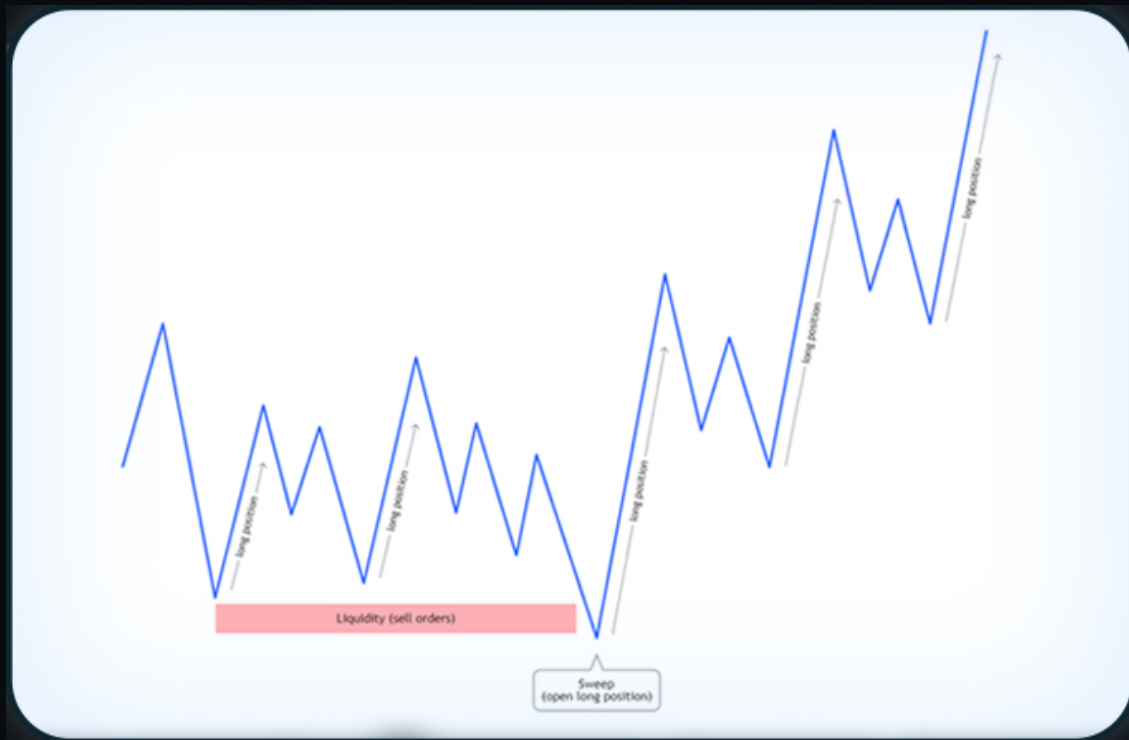


Chart example of order matching to build a long position



In most cases, price sweeps liquidity in a single move. It looks like a simple “piercing” of a level, visible on the chart as the formation of a wick.

BUILDING A SHORT POSITION

Schematic example of order matching to build a short position

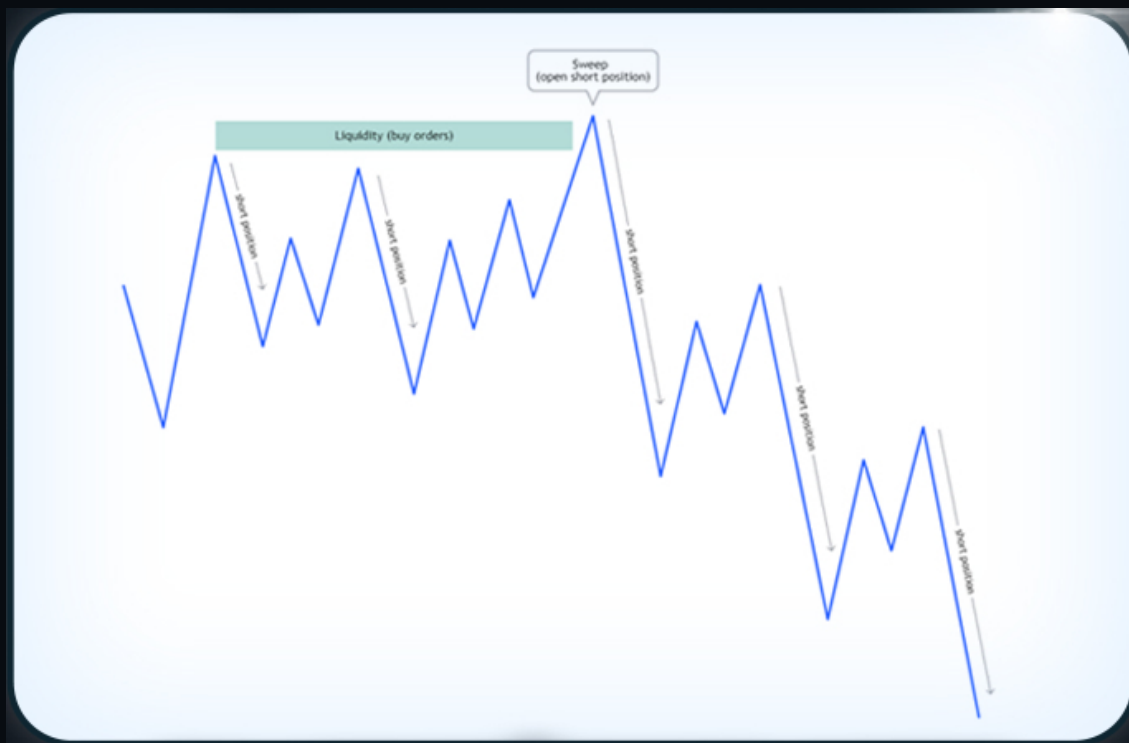


Chart example of order matching to build a short position



In some cases, an asset may trade above an area of accumulated liquidity before an impulsive move follows. This impulse indicates order matching within that particular price range of accumulated liquidity.

CONCLUSIONS

Market mechanics is built on buy and sell orders. Order matching forms candles and candlestick formations, which give us information about an asset's rise or fall.

The main liquidity lies beyond swing high and swing low areas. These ranges are key to the formation of market movement. Rising highs and lows form an upward move, while falling highs and lows form a downward move. We will discuss how structural movement develops in more detail in the next lesson.