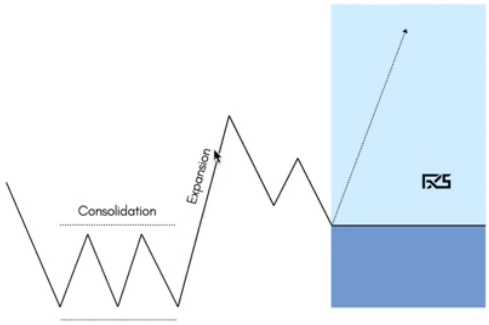
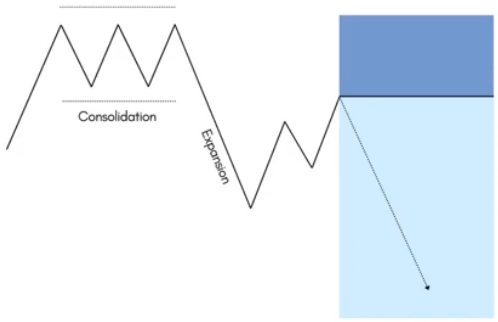
Supply and Demand

Created	@July 14, 2021 1:32 AM
Tags	

Consolidation and Expansion





The markets either do one of two things:

Price either consolidated or expands. This is impulsive and correction, so the correction would be the consolidation phase, and the impulsive phase is known as the expansion.

Consolidation:

A period in the market where price is moving **calm** which moves in a range known as the dealing **range**.

The term **range bound**, **ranging** or **consolidating**, this means that price is typically staying in one area, and just moving sideways, rather than up or down.

The range can be **tight** (meaning a spread of only a few $), or the range can be **large** (meaning a spread of hundreds of thousands of $ from range high to low. This partly will come down to the timeframe implemented.

Now usually the lower the timeframe the tighter the spread, meaning it can be a few $, and the higher the timeframe the looser the spread meaning the more

money basically.

So to conclude, the consolidation is where prices moving calm and ranging, its just sideways price action and if we look at this diagram down here, we can see this is would be our consolidation phase, where price moving sideways, so we can see going up, down, up, down, sideways price aren´t moving in one direction.

Expansion:

A period in the market where price is moving **aggressively** in one direction or the other. We will see an impulsive move to the upside, or an impulsive move to the downside, where price will give us large candle bodies or wicks.

As we can see on image above, we had a large impulsive move up. This is expansion, so we will see large candles or large wicks in one direction over the other.

Supply and Demand Theory

Demand zone:

Is the area of consolidation that comes before an impulsive move towards the upside (bullish price action). So a demand zone is sometimes referred to as a bullish consolidation block. What we will usually see is a range-bound market, followed by bullish expansion.

Demand zones can act as support when price action drops down into them from the top side. Demand zones are used to enter longs and/ or close short positions.

How to mark off our demand zones?

We take the low of the range, and the **highest** candle body. Or we can take that ranging price as a whole.

Supply Zone:

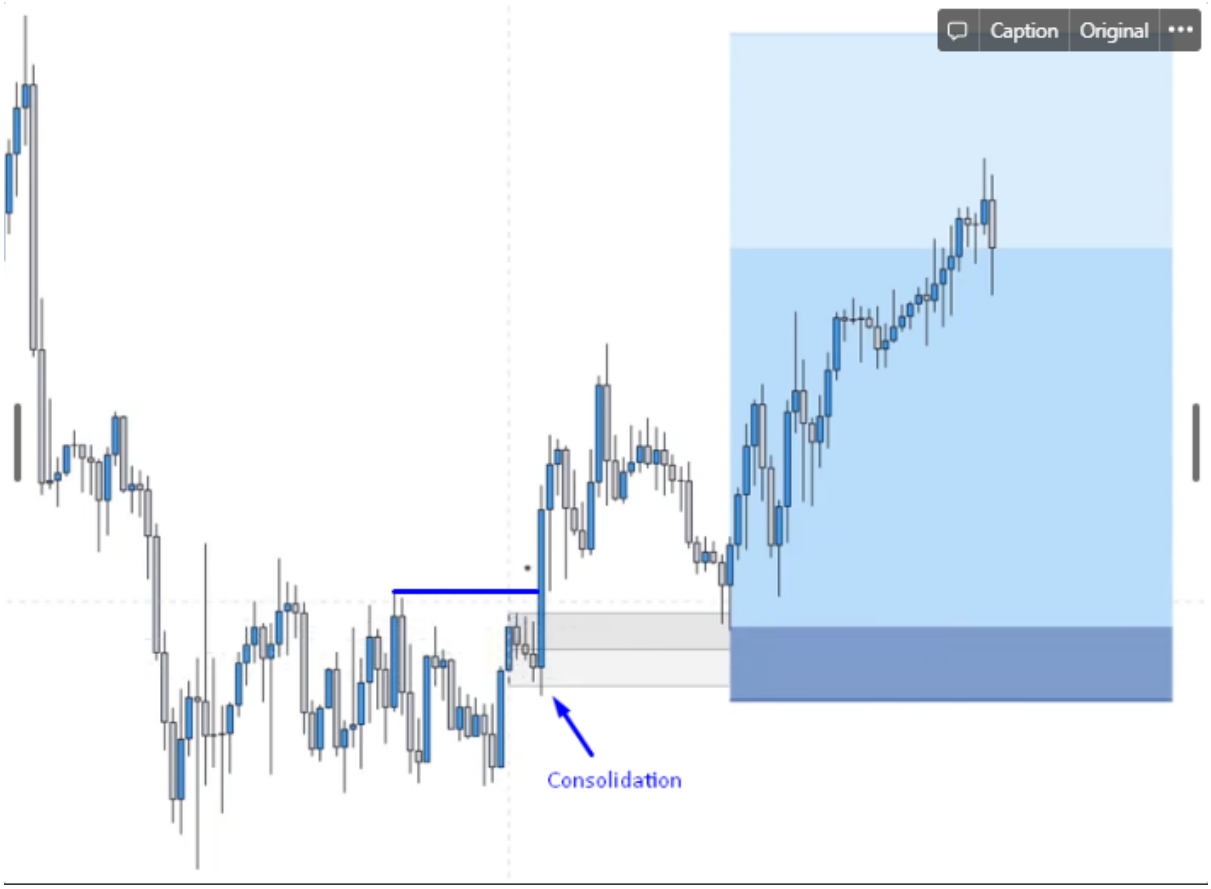
This is the area of consolidation that comes before an impulsive move towards the down side (bearish price action). A supply zone is sometimes referred to as a **bearish consolidation block.**

What we will usually see is a range-bound market, followed by bearish expansion.

Supply zones can act as resistance when price action pushes up into them from a down side. Supply zones are used to enter shorts and/ or close long positions.

How to mark off our supply zones?

We take the high of the range, so the highest point which would be the wick, and the **lowest** candle body, which would be the lowest bodies and not the wicks, the actual body, the lowest part of that range. But what I like to do is just take that trading range as a whole, so the high and the low, but in some examples if we have got huge wick then we can use our initiative and take the candle body and just look to see where the actual range is, and we know not count for that wick.



So now we have got an example of a demand zone. We got a expansion up which came after a consolidation, slash a range bound market, and price then came back into it.

So if we just take a look at this example, we had this range here, so this is our consolidation range, which woulb be more visible on a LTF, because we have 4 candles here, so we will just zoom in.

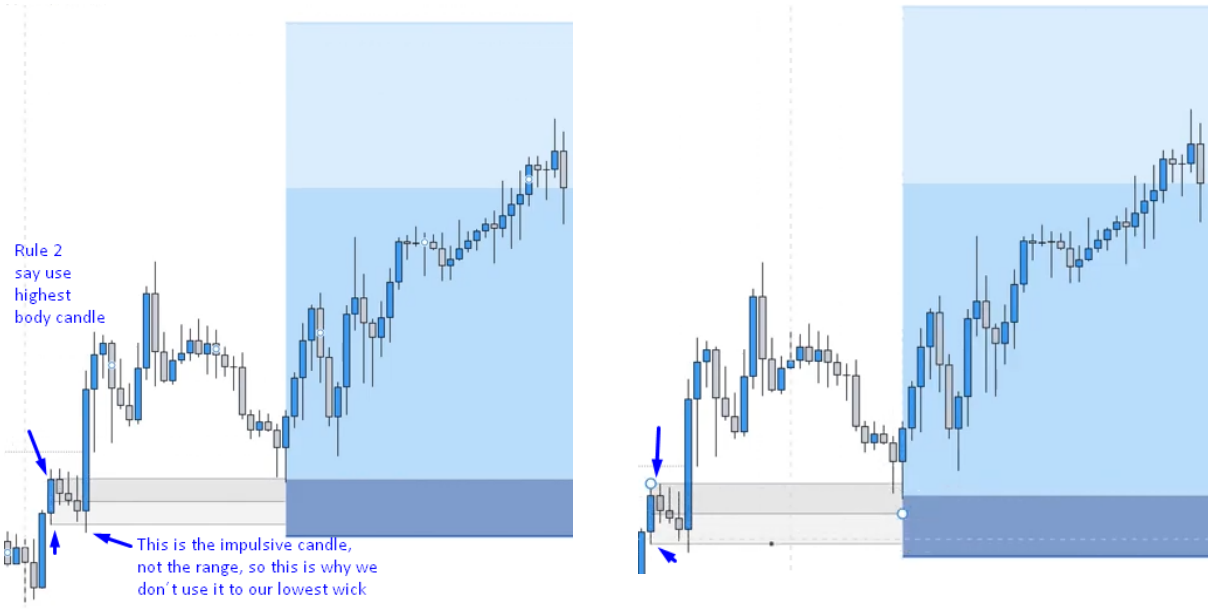
We have this 1, 2, 3 and 4 candles, which are moving sideways, consolidating and the next candle is where the expansion happened, which also broke structure. So we pushed up forming a HH and a HL, and we can see we then start to form these HH´s and HL´s.

Demand

> **But if we take a look at the rules of demand:**

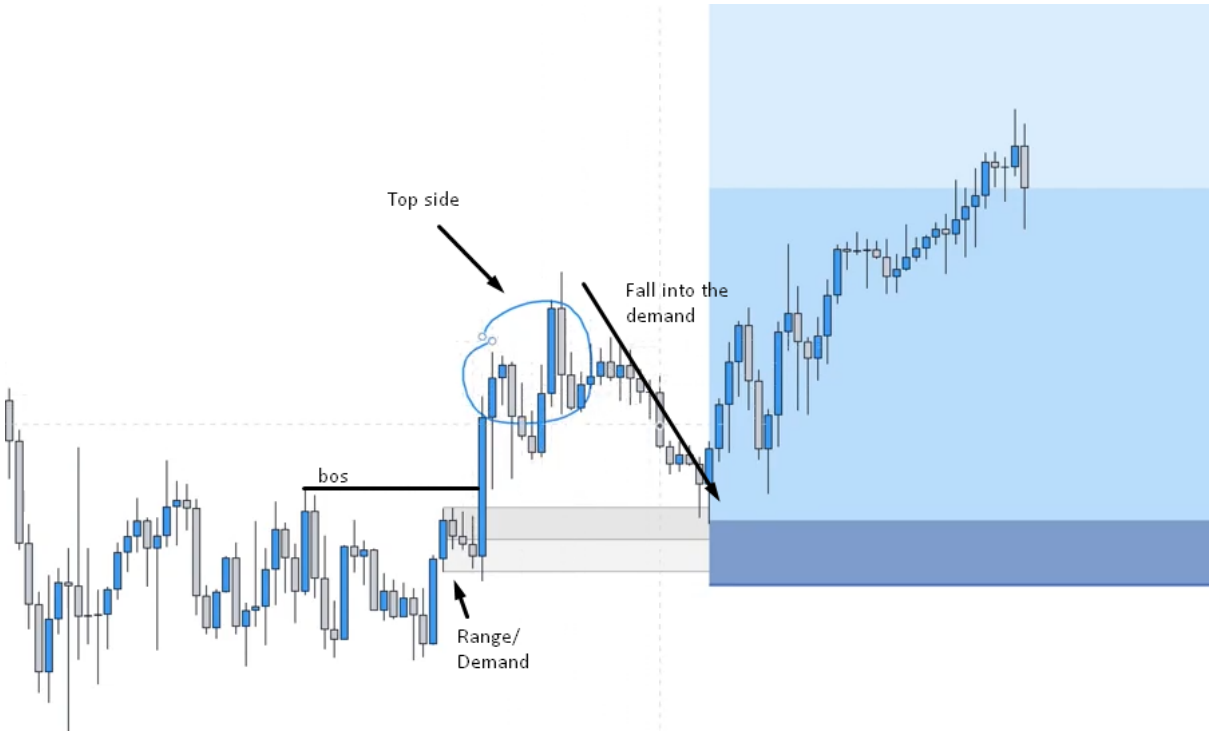
1. The area of consolidation that comes before and impulsive move towards the upside, which also broke structure (bullish price action).
2. We can take the low of the range and the highest candle body. Or even we can take that ranging price as a whole.
3. Demand zone is created once the expansion takes place, break structure. Price action will fall into the demand from the top side.
4. Demand zones can be used to enter longs. We can also use them to close down any of our short positions, that we may have running.

Notes about rules:



2) This blue candle here would be the low. Now why wouldn´t it be this wick here? Well this is the candle that actually showed the expansion. This is the impulsive candle, so this is not the range, this is the candle that broke out of that range. So this would be the low, we take the lowest point which is the wick, and the highest point we can look at, would be this highest candle body, so its here. But was we also put in **rule 2**, or we can take the trading range as a whole, which is what I do personally.

So for me would be the highest point and then the wick, the lowest point.

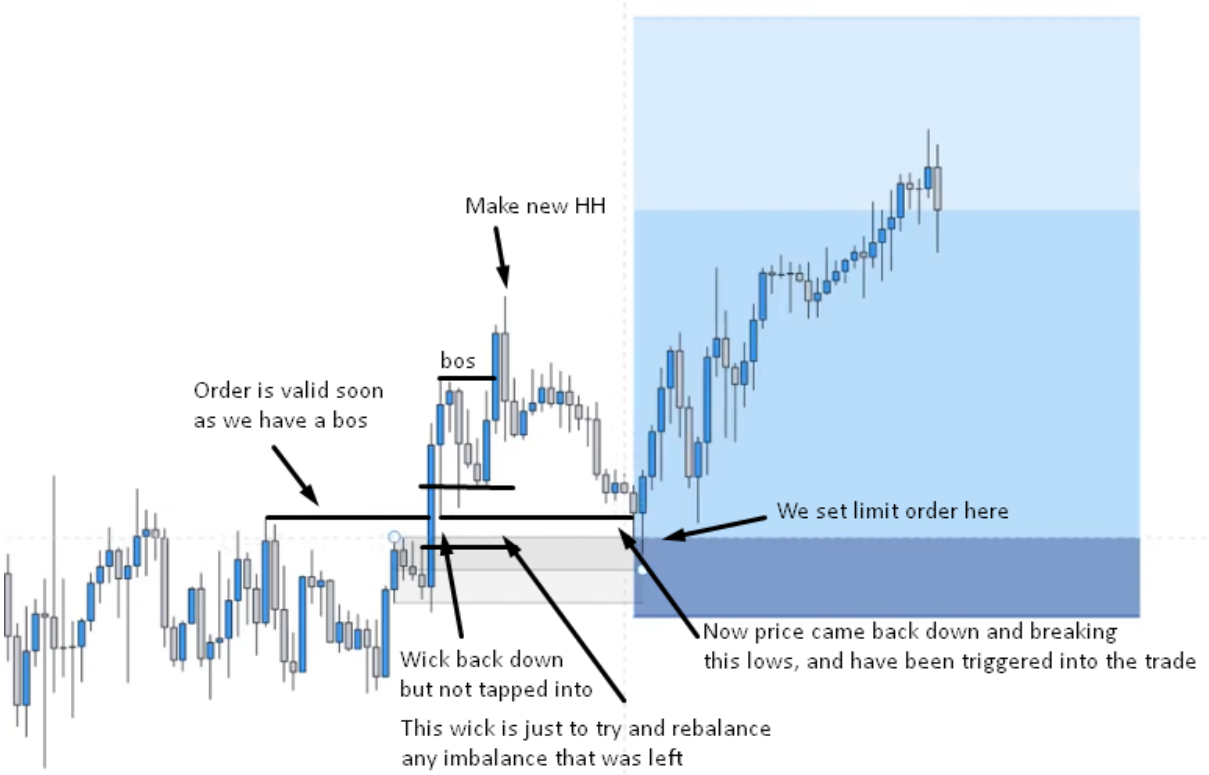


3) Break structure, this is the range, this is our demand. So this is the top side, we fall back into the demand.



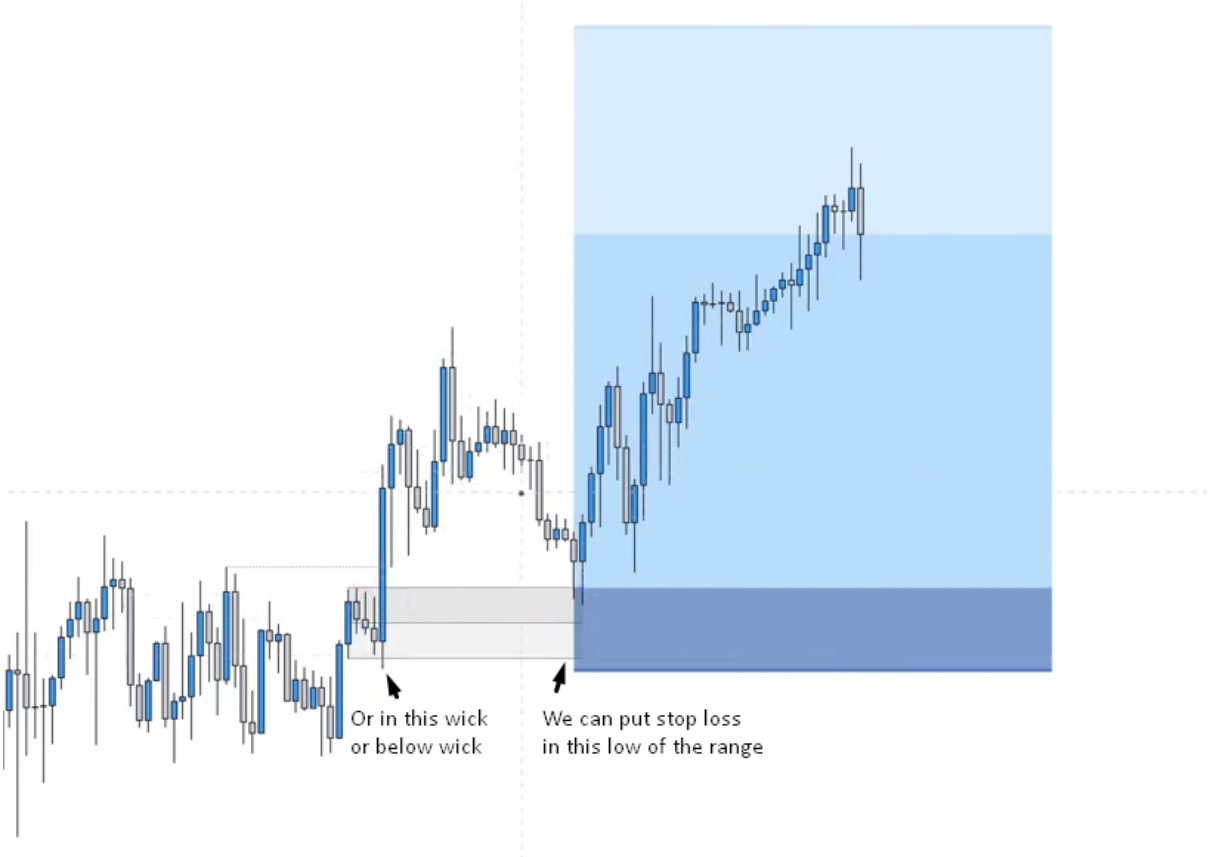
4) As its possible that we can see a reaction from a demand. So if we are in sells from here, we wanna be thinking about, setting targets or closing down manually, once we can look at how price reacts to the demand level, because we know its likely we can see that reaction and then for the push to the upside, is what we got here.

How could we go about entering this trade?



We can set our entry at limit order, is valid as soon as we have a bos. So after this bos, we can set limit order at the top of the consolidation, OB, range. So we can set out entry at the top. Now we can see here we had wick back down, but wouldn´t have been tapped into the market, because price then pushed up made a new HH.

Now this wick down, was just to try and rebalance any imbalance that was left here, but we also left imbalance here. We pushed up HH, and then we come back down breaking this lows, and we would have been triggered into the trade.

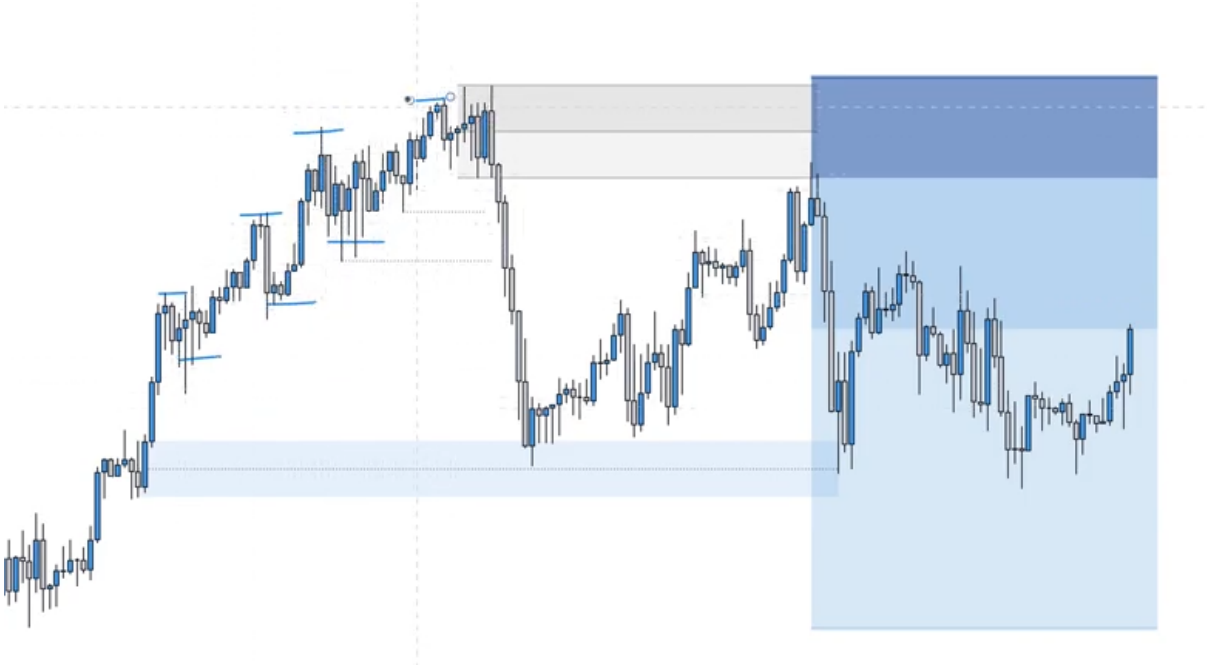


Now about our stop loss, we can place our stop loss at the low of the trade and range, or we can account for any wicks that we may have. So we got this wick here, so we can put our stop loss at that wick or below it, because price came down to mitigate the entire sort of trading range, and any imbalance or inefficiency that was left on this impulsive move (big candle that made BOS), before then continuing.

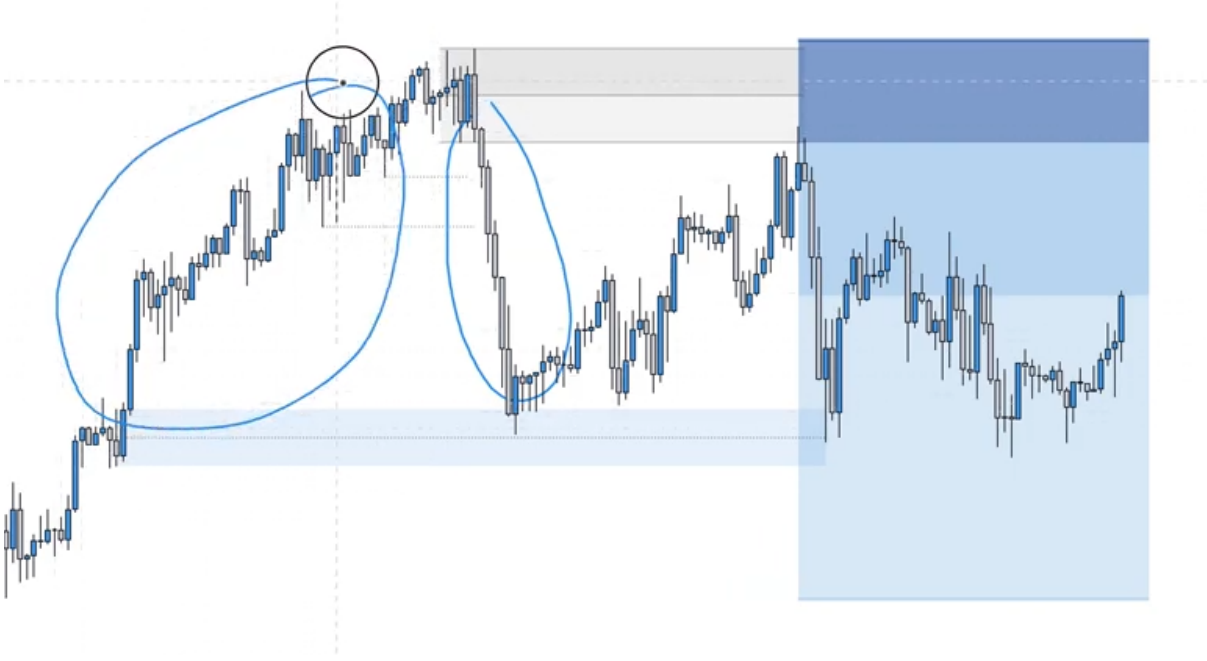
So if we put our stop loss directly at this sort of block or trading range, then its likely we can be tapped out with a wick, before price continues. So giving ourself that 1 to 2 pip sort of buffer accounting for the wick, we know its a lot safer to do.

But thats the example of a demand where we are looking at expansion and consolidation, and how we can look to enter it.

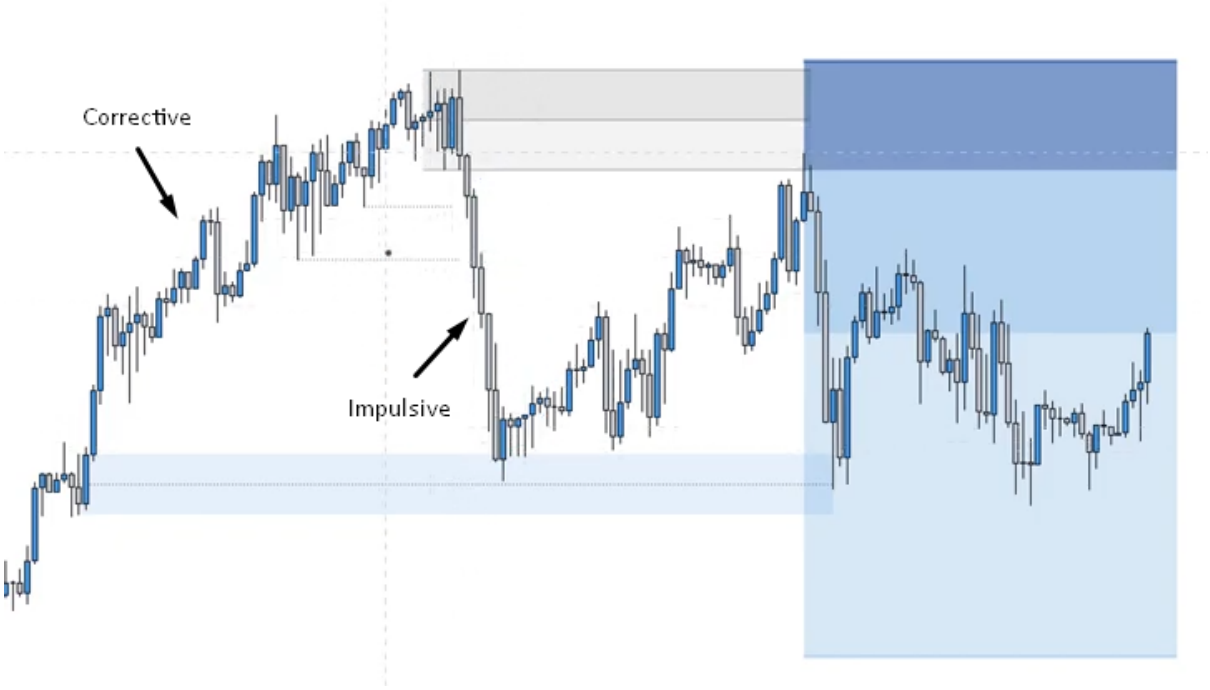
Supply



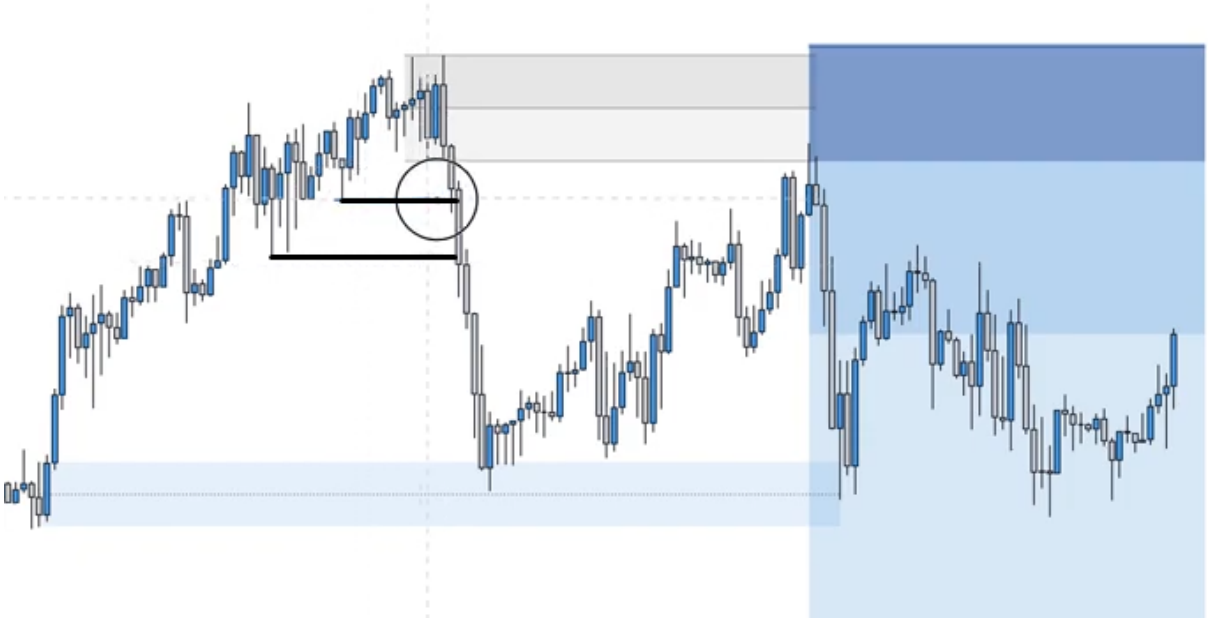
But lets now get into a example of supply. So now we have got a example of a supply, we are on GU on the 1h. So what we can see is price was put in this HHs and this HLs, corrective price action, which is efficient. So all of this moves are making highs retracing, with mitigating, making highs, retracing, mitigating, and then continuing.



So now when we look at here, we can see we had an impulsive move to the downside which is the expansion. We can see its agressive, and if we compare this move to this entire move, we can see its the same length and we can see the difference in the candle size.



We have some candles within this like this 2 here, but 80% of this move here is corrective and this is impulsive.

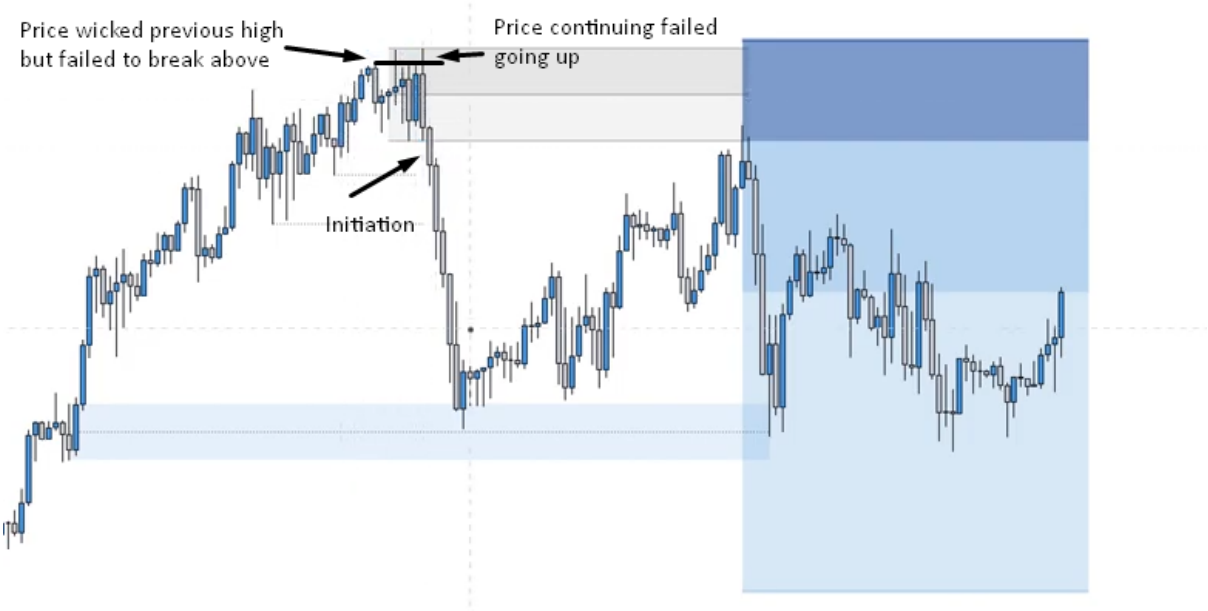


So this is the expansion phase, we also have BOS to the downside, so we have BOS here and here.

But if we take a look at the rules of supply:

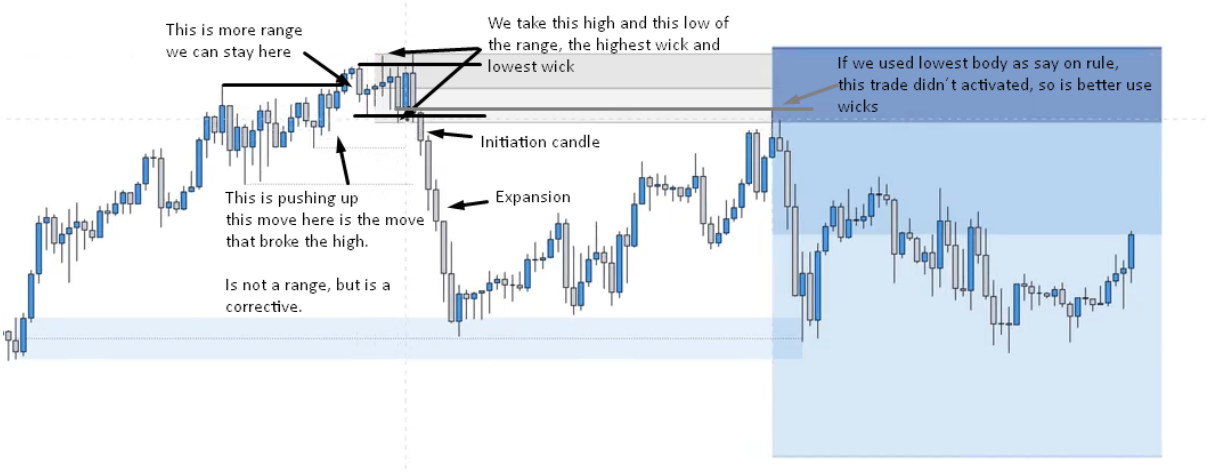
1. The area of consolidation that comes before an impulsive move towards the downside (bearish price action)
2. We take the high of the range and the lowest candle body. Or we can take that ranging price as a whole.
3. Supply zone is created once the expansion forms. Price action will push up into the supply from the downside.
4. Supply zones can be used to enter shorts. We can also use them to close down any or our long positions.

Notes about rules:



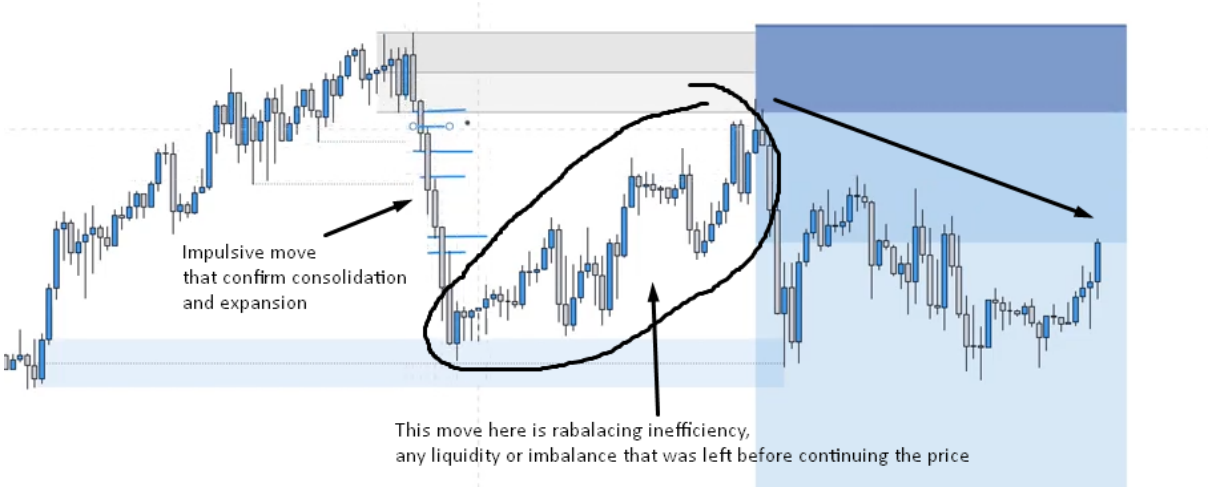
1) So this is that bearish price action. Where is the range that come before this? This is here, so price made this HH here, above this high, we then had a HL, price then wicked that higher, but failed to break above, and put in that new high.

And instead we got 2 wicks, and we sort of we losing that momentum, we can see prices failing to continue going up. We get a bit of a range, range found market and then we initiate out.

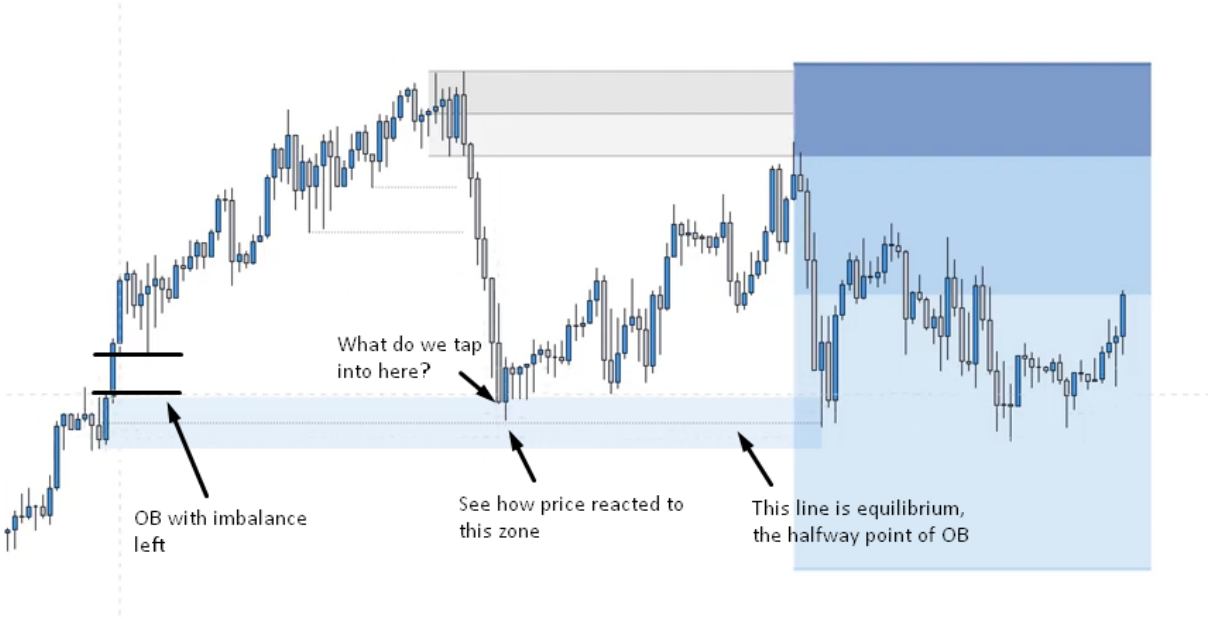


2) So if we zoom in, where is the range start? This is pushing up, this move here is the move that broke the high, so thats not a range, its corrective, but its not a range.

This is more of a range, and I would be looking at we know from we could stay from here this candle or this bearish candle all the way until we initiate out with the expansion. So we take high of the range, as we can see we put on the higher, this is the highest point which is this wick and the lowest wick. Because we then initiate out with the expansion which come after the consolidation range bound market.



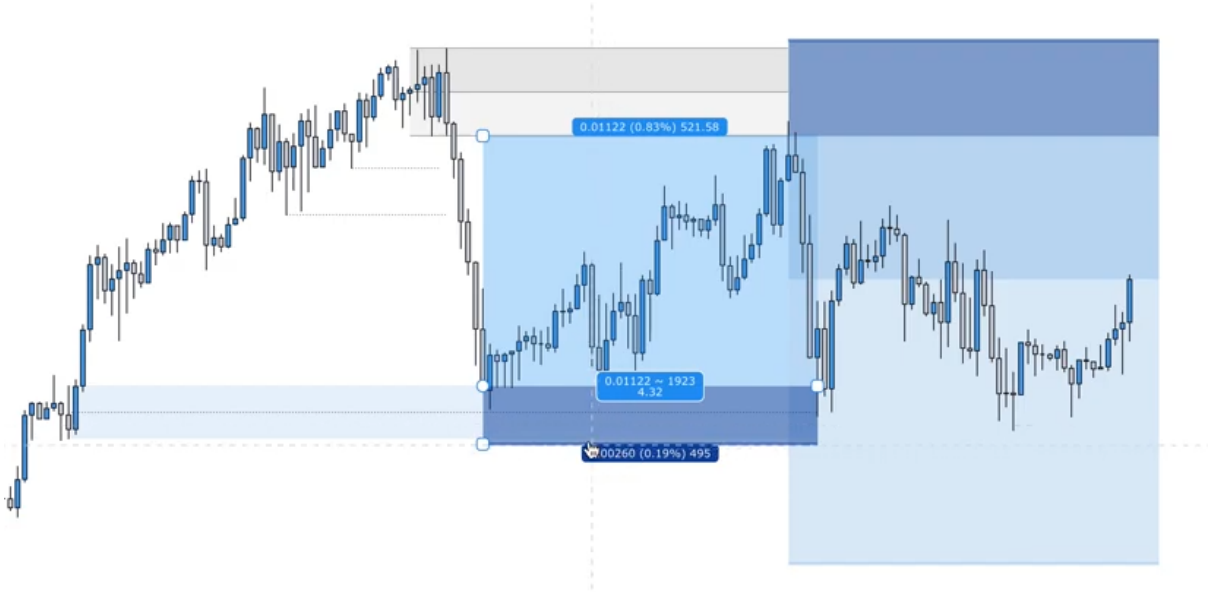
3) So this impulsive move to downside confirm a expansion and consolidation range. So we can see if we push back up, this is also this move here, is also rebalancing inefficiency as Im marking on now any liquidity or imbalance that was left on this large move is being rebalanced before large banks are continuing the price down.



4) We can see something very key here. We push down, which is expansion, that came after consolidation, but what do we tap into here? So if we look left what is this? Is a demand zone right? Because we have expanded up from a range.

So if once we see price come down, we know we can look for longs, from here, because we have tapped into a demand which also left imbalance. And notice how price has respected this area.

Even if we drag this out, now we have got this line on because its marking the halfway point, of the demand, or this OB. This line is the equilibrium point of the OB. So that means its the halfway point.



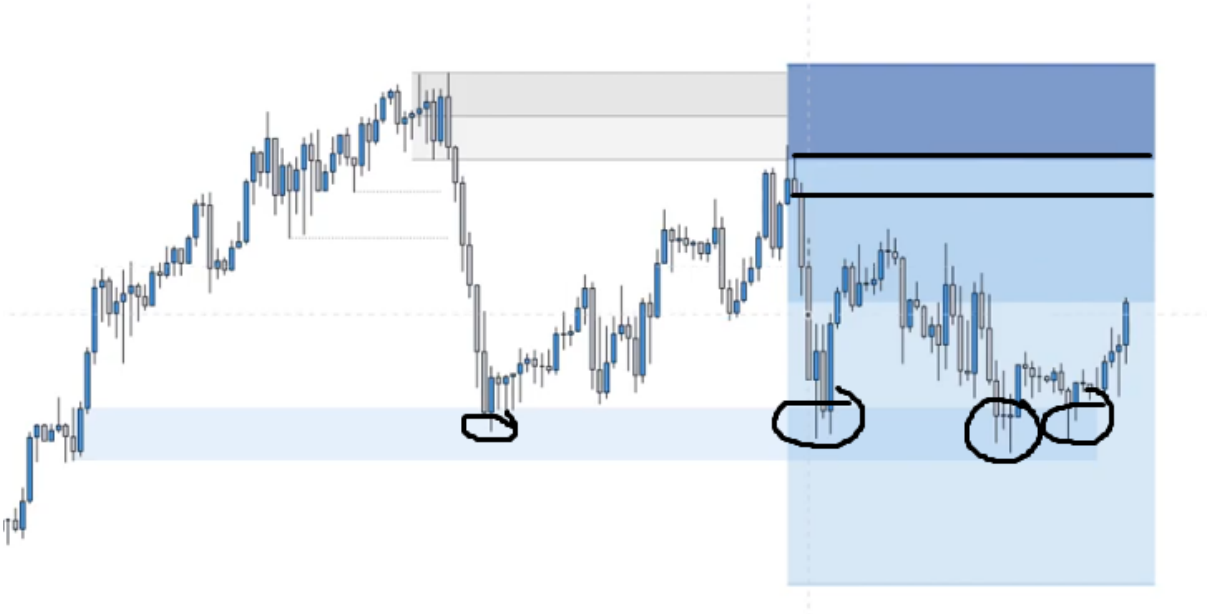
We can see price taps in. Now the equilibrium gets respected a lot with this sort of SnD levels. We tap in, we push off, so if we was looking for a long here, obviously Im not going down on LTF, is just showing the concepts off SnD.

So our stop loss would be just below, and we enter the top. Now that we know we have this supply up here. We can target it, of the beginning or the base of supply and we can see how perfectly it played out. Now this is a 4.3RR with a 26 pips stop loss.

Now in LTF we can get in with a much tighter stop loss than this.

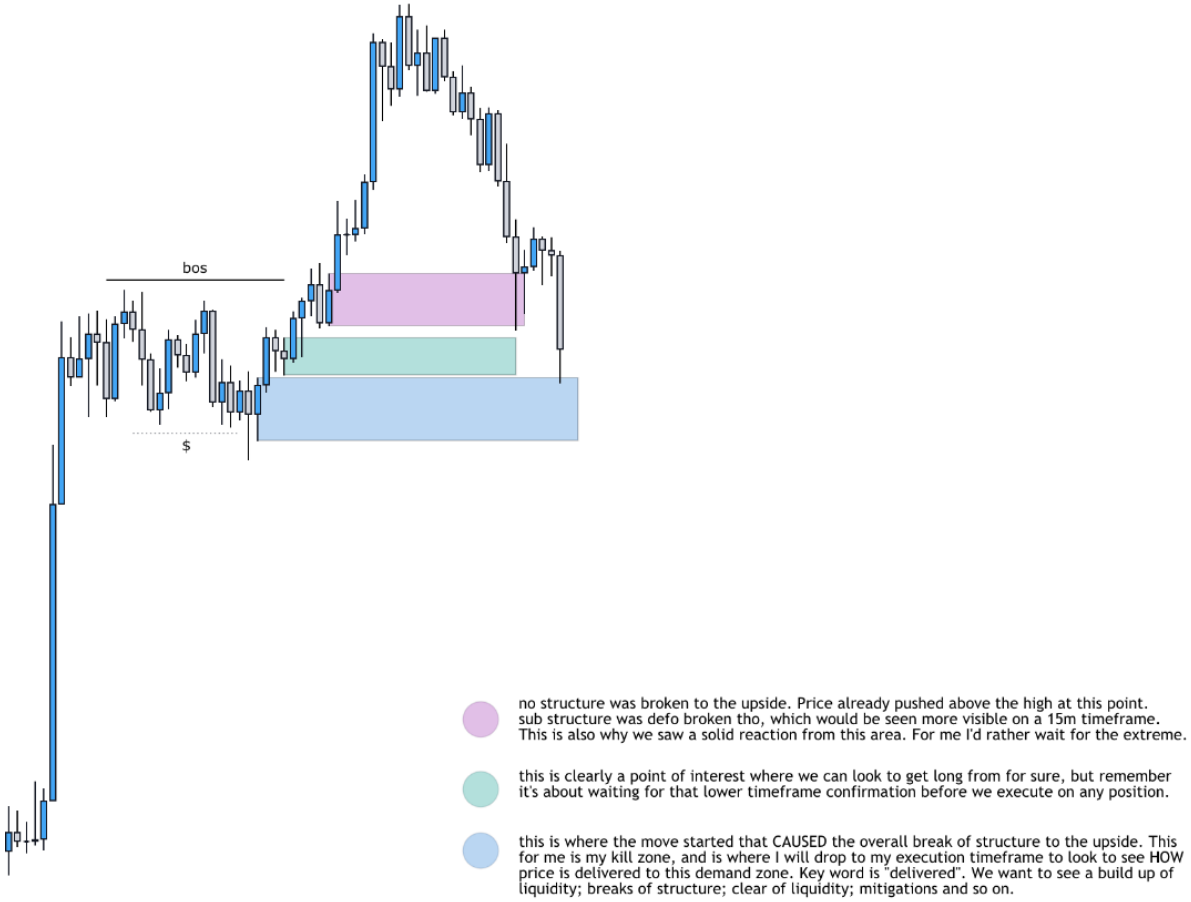


So this tap in to the supply, and then push off and came to this demand again, and we can see how price has kept to this demand. We have respected it, we actually mitigate more than 50% here. So we actually mitigate around 90%, before we then continue.

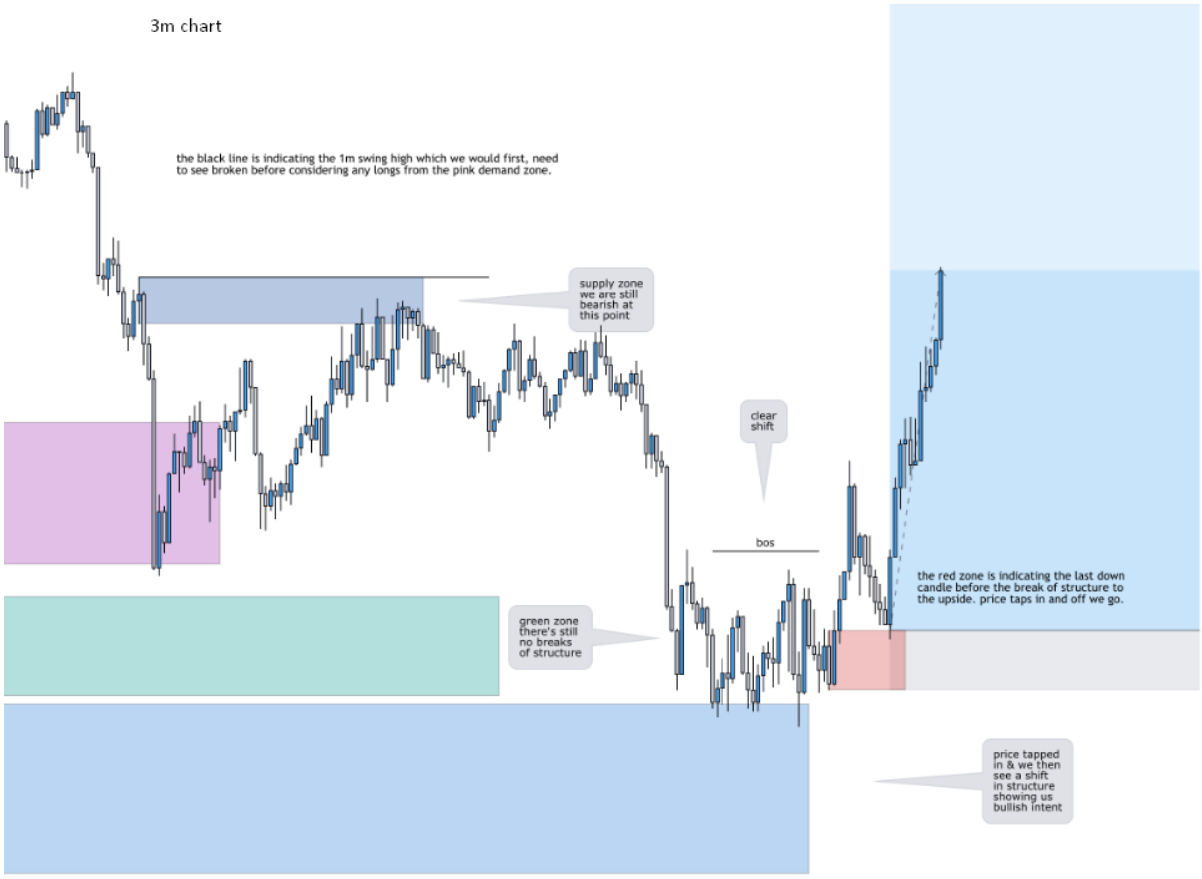


So focus back on the supply we can see we come out expansion, this comes after the consolidation, we come back up to rebalance, we tap in so we can set our entry at the low of the range, we have our stop loss again just above 1 or 2 pips the high of the range, with the expect that we are gonna tap in mitigate. So price respect the supply zone and price is now rebalanced, so we continue down and looking for LLs, but also understanding what we have on demand zone/OB.

This could push up to another sort of supply or a bearish OB up here, because this is the last up move before the down move, broke structure.



1h chart when deciding what supply and demand areas we should be considering.



3m chart Filtering and waiting for confirmation