Liquidity in Forex [Buy-Side, Sell-Side, Internal & External LQ in ICT & SMC]

Liquidity in forex refers to **stop loss activation zones** triggered by **market algorithms and Smart Money**.

Different types of liquidity in Smart Money and ICT styles

These areas often accumulate **buy-stop and sell-stop orders**, acting as **liquidity sources** in forex and driving **significant bullish** and **bearish price movements**.

What is Liquidity in Forex?

Liquidity in forex refers to the **volume of available buy and sell orders** in the market, which allows for **smooth and quick trade execution**. **It** is defined by the market's ability to **absorb large orders** without **significant price changes**.

These zones accumulate **buy-stop and sell-stop orders** and are classified into four main categories.

What Are the Types of Liquidity in Forex?

Liquidity in the forex market has various forms, **which are utilized explicitly in Smart Money and ICT trading strategies**. **The main types of liquidity in forex**:

- **Buy-Side Liquidity**
- **Sell-Side Liquidity**
- **Internal Liquidity**
- **External Liquidity**

Buy-Side Liquidity (BSL)

This type of liquidity consists of **pending buy-stop orders** placed by **retail traders to protect their short positions**.

In **Smart Money** and **ICT trading**, **buy-side liquidity** typically accumulates at **previous highs, equal highs (EQH),** and **key resistance levels**.

Examples of Buy-Side Liquidity (BSL) in ICT, identified based on clear highs

Sell-Side Liquidity (SSL)

Sell-side liquidity consists of **pending sell-stop orders** placed **to protect long positions** and is found near **key lows**.

Sell-side liquidity is usually observed at **previous lows, equal lows (EQL), and key support levels**.

Examples of Sell-Side Liquidity (SSL) in ICT, identified based on clear lows

Internal Liquidity

Internal liquidity is formed by **Fair Value Gaps (FVG)** and **Order Blocks (OB)**.

These zones serve as **temporary price equilibrium areas** before the price moves toward **external liquidity**.

The Role of Fair Value Gaps and Order Blocks as Internal Liquidity

External Liquidity

External liquidity consists of **major highs and lows**, which the market moves toward to **absorb liquidity**.

External Liquidity (External Liquidity) on the Daily Chart of EUR/USD

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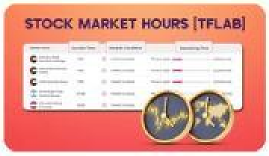

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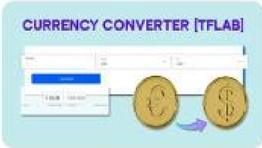

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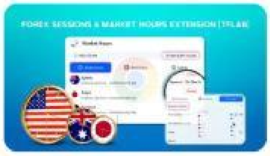

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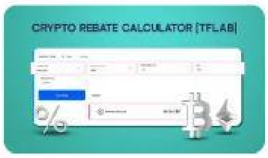

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Which Liquidity Levels Are Most Important in Forex?

1. **Previous Month's High and Low (PMH/PML):** Key levels that the market tends to move toward; these levels act as **reversal points or price targets**.
2. **Previous Week's High and Low (PWH/PWL):** Provides **insights** from **mid-term trends** and helps to set **entry** and **exit points**.
3. **The Previous Day's High and Low (PDH/PDL): Helps forecast short-term price movements** and identify **entry points**.

4. **Trading Session Highs and Lows:** Each trading session (**Asia, London, New York**) has its liquidity dynamics. The **highs and lows** of each session act as **key price targets**.

What is the Draw on Liquidity (DOL)?

Draw on Liquidity (DOL) refers to the **market's tendency** toward **internal** and **external liquidity zones**.

Steps to Identify Draw on Liquidity (DOL)

1. **Identify External Liquidity:** Locate **major highs, lows,** or **equal levels** in higher timeframes **(daily or weekly)**.
2. **Identify Internal Liquidity:** Find **Fair Value Gaps (FVG)** and **Order Blocks** in lower timeframes **(1-hour or 15-minute charts)**.

3. **Observe the Movement Between Internal and External Liquidity:** Price generally moves from internal liquidity toward external liquidity and vice versa.
4. **Monitor Market Structure Shift (MSS):** If the price **breaks through an internal liquidity zone** and moves toward external liquidity, **the market structure changes** to form a new trend.
5. **Confirm with Lower Timeframes:** Use **lower timeframes (5-minute or 1-minute)** to **accurately time entry** and **exit points**.

High-Resistance Vs Low-Resistance Liquidity

High-resistance and low-resistance liquidity are **key ICT liquidity concepts**, helping traders analyze **market behavior in liquidity absorption zones**.

Low-Resistance Liquidity (LRL)

Low-resistance liquidity occurs when the market **reverses quickly without absorbing liquidity**. This phenomenon is also known as a **Failure Swing**.

Examples of LRL

1. **Failure Swing at Highs:** If the price **fails to break a previous swing high** in a downtrend, it forms a **failed swing high**

2. **Failure Swing at Lows:** In an **uptrend**, if the price **fails to break a previous swing low**, it forms a **failed swing low**

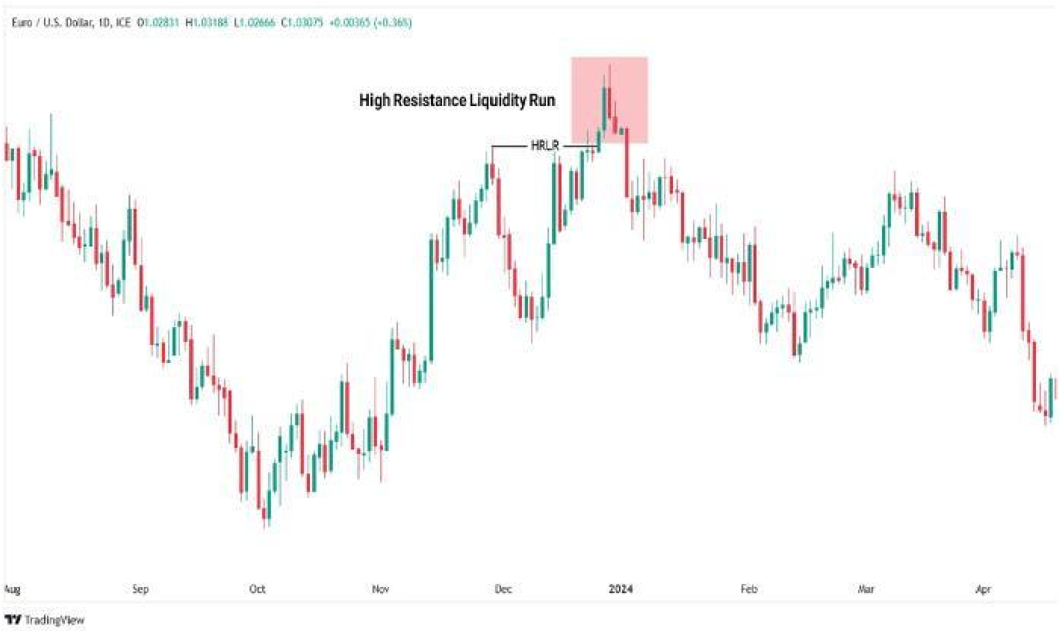
High-Resistance Liquidity (HRL)

High-resistance liquidity occurs when the market absorbs liquidity before **reversing**.

This often happens when **the price breaks a high in an uptrend** or **breaks a low in a downtrend** before reversing.

Examples of HRL

1. **Break and Reversal at Highs:** The market absorbs buy-stop orders above a high, then **quickly reverses downward**.
2. **Break and Reversal at Lows:** The market **absorbs sell-stop orders below a low**, then **moves upward**.



Break of Swing Highs and Reversal into Range, Clearing High-Resistance Liquidity (HRLR)

Conclusion

Understanding **buy-side liquidity, sell-side liquidity, internal liquidity, and external liquidity** is crucial for **order flow analysis** and **predicting price movements**.

Key liquidity areas such as **daily, weekly, and monthly highs and lows** help identify **reversal points, price targets, and ideal trade entries**.

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