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#PriceAction

Understanding Supply/Demand vs Liquidity

Knowing what a Supply/Demand (SD) is and knowing how to use them are different. Small writeup to provide clarity, to my perspective.

Small write up to cover:

- Improper use of SD**
- Suggested Use of SD**
- Conclusion**

Supply/Demand vs Liquidity Pockets

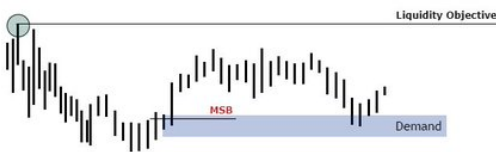
Standard Supply and Demand

- Price validates a Supply/Demand level when it breaks structure
- As long as there is a liquidity pocket/objective then the Supply/Demand level is valid

Supply:



Demand:



Liquidity Pockets

- Price moves from liquidity pocket to liquidity pocket (Swing Point to Swing Point)
- Supply/Demand that forms between 2 liquidity pockets is irrelevant
- Price is seeking liquidity rather than looking to fill iceberg orders using SD levels



Improper use of SD, to my perspective.

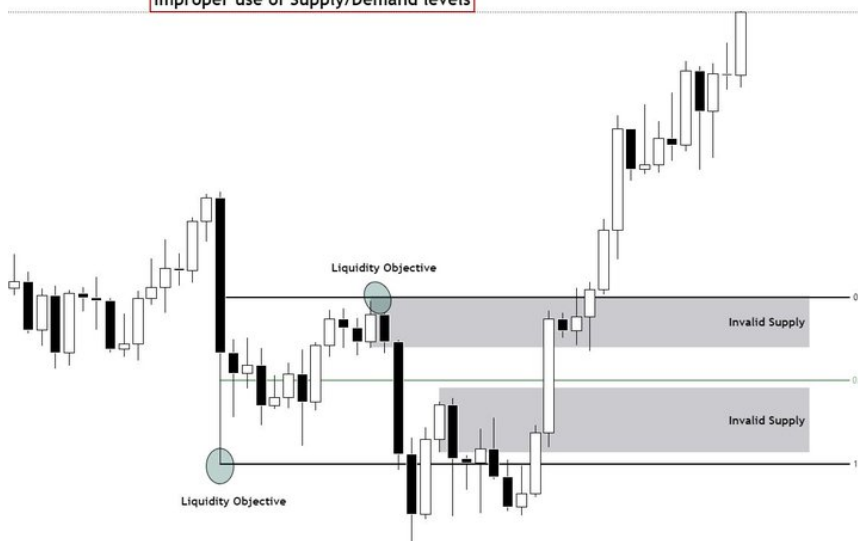
Price always has an objective. When you have 2 swing points/liquidity pockets we are moving from one end to the other.

Mocking up SD levels between those 2 points will more then likely invalidate as price has decided it will engineer stops

Liquidity Pockets

- Price moves from liquidity pocket to liquidity pocket (Swing Point to Swing Point)
- Supply/Demand that forms between 2 liquidity pockets is irrelevant
- Price is seeking liquidity rather than looking to fill iceberg orders using SD levels

Improper use of Supply/Demand levels



- Demand/Supply levels that form between 2 liquidity points are irrelevant
- Price is attracted to the opposing side of liquidity

Suggested use of SD levels, to my perspective.

Normally how I mark up SD areas are at the bottom of a range/bottom-top of liquidity points. As price taps demand/ runs a

low we then move onto the next area of liquidity/supply invalidating all in-between.

Simple enough.

Proper Use of Supply/Demand

- Supply/Demand levels above/below liquidity objectives offer the highest hit rate of those levels being valid
- As long as there is an opposing side of liquidity the use of Supply/Demand is valid



Liquidity Pockets

- Price moves from liquidity pocket to liquidity pocket (Swing Point to Swing Point)
- Supply/Demand that forms between 2 liquidity pockets is irrelevant
- Price is seeking liquidity rather than looking to fill iceberg orders using SD levels



Conclusion:

Ask yourself what price is attracted too. If you know how to draw a certain level without context as to what the market is seeking this does not mean it will work and be applicable.

Knowing levels vs using judgement come into play.

Context is key.

End.//