



ORDER FLOW

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Order flow analysis is the process of examining the buying and selling pressure in a market through incoming orders, providing insights into short-term price movements and potential trend changes.

Key Concepts



1. Market Depth:

- Shows pending buy and sell orders at different price levels



2. Time and Sales:

- Displays executed trades in real-time



3. Volume Profile:

- Shows trading volume at different price levels over time



4. Tape Reading:

- Interpreting the flow of trades to gauge market sentiment

Components of Order Flow Analysis

1. Bid-Ask Spread:

The difference between the highest buy price and lowest sell price

3. Large Orders:

Significant individual orders that can impact price movement

2. Order Book Imbalance:

Disparity between buy and sell orders at different price levels

4. Order Cancellations:

Sudden removal of large orders from the order book

Interpreting Order Flow

1.

Absorption:

- Large orders being filled without significant price movement

2.

Stacking:

- Accumulation of orders on one side of the order book

3.

Spoofing:

- Placing and quickly canceling large orders to manipulate price

4.

Iceberg Orders:

- Large orders split into smaller, less visible portions

Trading Strategies

1. Scalping:

- Quick trades based on short-term order flow imbalances

2. Momentum trading:

- Entering trades in the direction of strong order flow

3. Fading large orders:

- Taking positions opposite to unusually large orders

Risk Management



Use tight stop losses for short-term order flow trades



Be cautious of rapid changes in order flow, especially around news events



Avoid over-trading based solely on short-term order flow signals

Tips

Combine order flow analysis with price action and technical indicators

Practice interpreting order flow in demo accounts before live trading

Be aware that order flow data may be delayed or incomplete in some markets