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ICT SMT Divergence – a Comprehensive Guide

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SMT Divergence occurs when **two related** and **correlated** assets show **opposite** trends [**one bullish** and the other **bearish**] on their price charts during the same timeframe in **ICT style**.

This situation can occur in **positively correlated assets** such as **EUR/USD** versus **GBP/USD**. For example, **EUR/USD** forms a **Higher High (HH)**, while the other **asset** forms a **Lower High (LH)** instead of a **Higher High (HH)**.

In **negatively correlated assets**, like **EUR/USD** versus the **US Dollar Index (USDIX)**, **EUR/USD** forms a **Higher Low (HL)**; while the other **asset** forms a **Lower High (LH)** instead of a **Higher High (HH)**.

What is ICT SMT Divergence?

Typically, **correlated assets** in **financial markets** move symmetrically. If two **positively correlated assets** exist and one forms a **Higher High (HH)**, the other will also form a **Higher High (HH)**.

For instance, the price charts of two **positively correlated assets**, **EUR/USD** versus **GBP/USD**, show this phenomenon over the same timeframe.

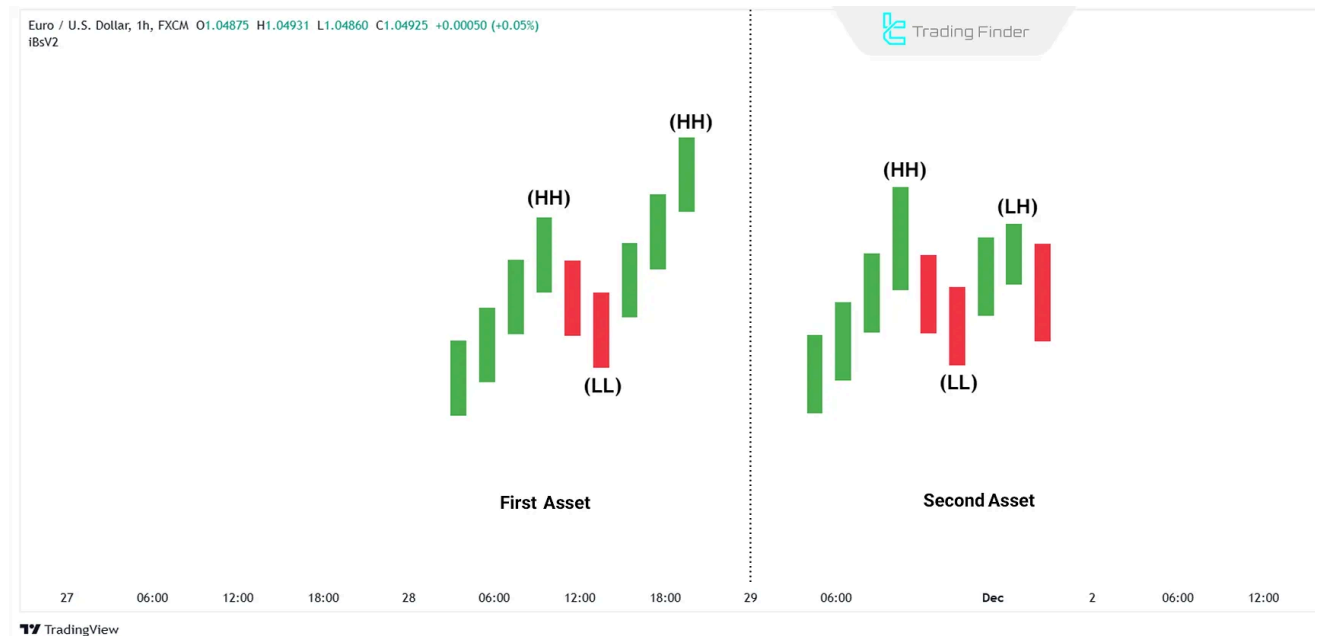




Price chart illustrates the positive correlation between Euro to US Dollar (EUR/USD) and British Pound to US Dollar (GBP/USD)

ICT SMT Divergence, or the **Smart Money Technique (SMT)**, highlights a **market scenario** where two **correlated assets** show opposing **structures** within the same timeframe (one **bullish** and the other **is bearish**.)

Sometimes, **correlated assets** decouple. For example, if one forms a **Higher High (HH)**, while the second fails to form a **Higher High (HH)**, and vice versa, this situation is known as **ICT SMT Divergence**.



According to Chart, First Asset Makes Higher High (HH) and Second Asset Fails

How to Use ICT SMT Divergence?

ICT SMT Divergence acts as a potential **reversal signal** for **correlated assets**.

When two **positively** correlated assets are trending upward, but one forms a Higher High (HH), while the other fails to do so, it signals a potential trap for traders.

This divergence indicates **market weakness** and suggests a possible **reversal** for these assets.

ICT SMT Divergence can be used between **two correlated assets** as a trading strategy. When their price charts interact with the **Premium/Discount Array (PD Array)** on a higher timeframe, it provides **confirmation** to enter a trade.



ICT SMT Divergence between two positively correlated assets – Euro to US Dollar (EUR/USD) vs. British Pound to US Dollar (GBP/USD)

Positive and Negative Correlations in ICT SMT

There are two main types of divergence: **Positive** and **Negative**.

Positive Correlation

A positive correlation occurs when two **assets** generally move in the same **direction**.

In **forex markets**, **EUR/USD** and **GBP/USD** pairs often move together. Similarly, **ES (S&P 500)** and **Nasdaq (NQ 100)** display symmetrical movements in indices.

Bitcoin (BTC) and **Ethereum (ETH)** are examples of **assets** reflecting symmetrical **correlation in the crypto market**.



Positive Correlation between Nasdaq and US500 Indices Can be Seen in This Picture

Negative Correlation

A negative correlation occurs when two **assets** move in opposite **directions**.

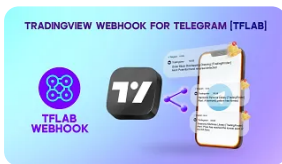
For example, the **US Dollar Index (DXY)** and **EUR/USD** pairs often exhibit inverse **correlation in the forex market**.

Bitcoin (BTC) and the **US Dollar Index (USDXY)** correlate negatively in the crypto market.

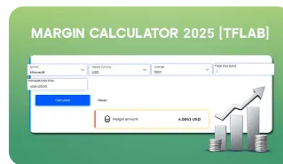


Negative Correlation between Euro to US Dollar (EUR/USD) and US Dollar Index (USDXY) Can be Seen In This Picture

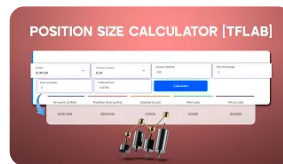
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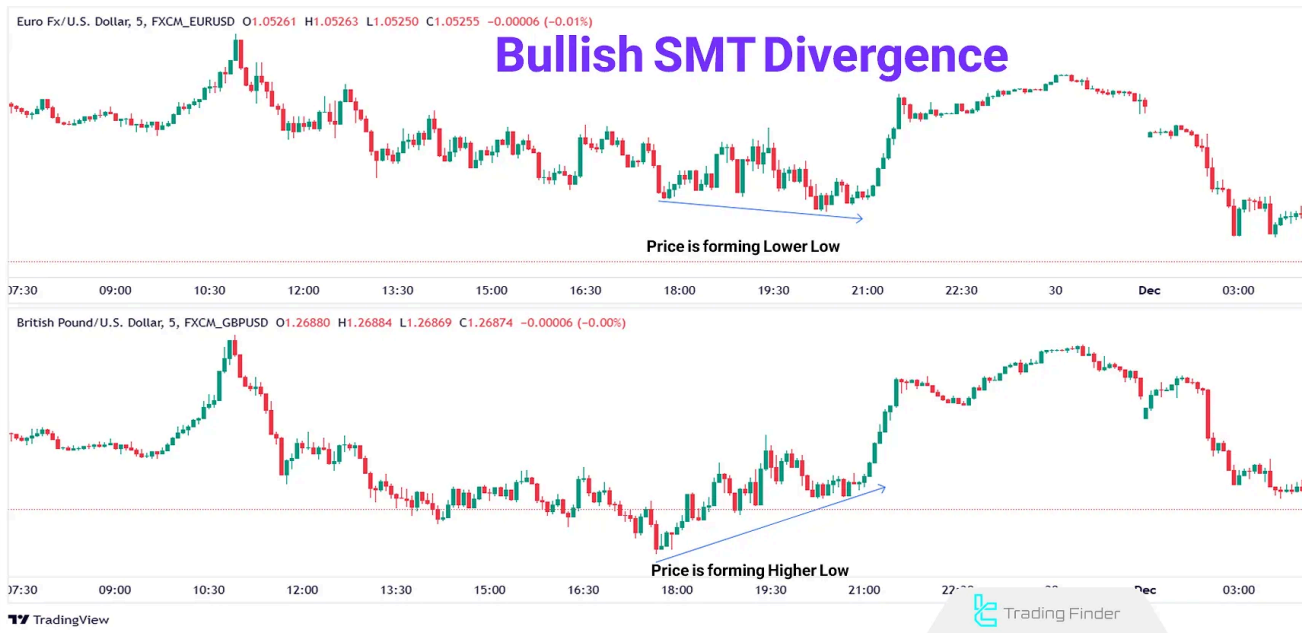
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Types of ICT SMT Divergence

ICT SMT Divergence can be categorized based on **market direction**:

Bullish SMT Divergence

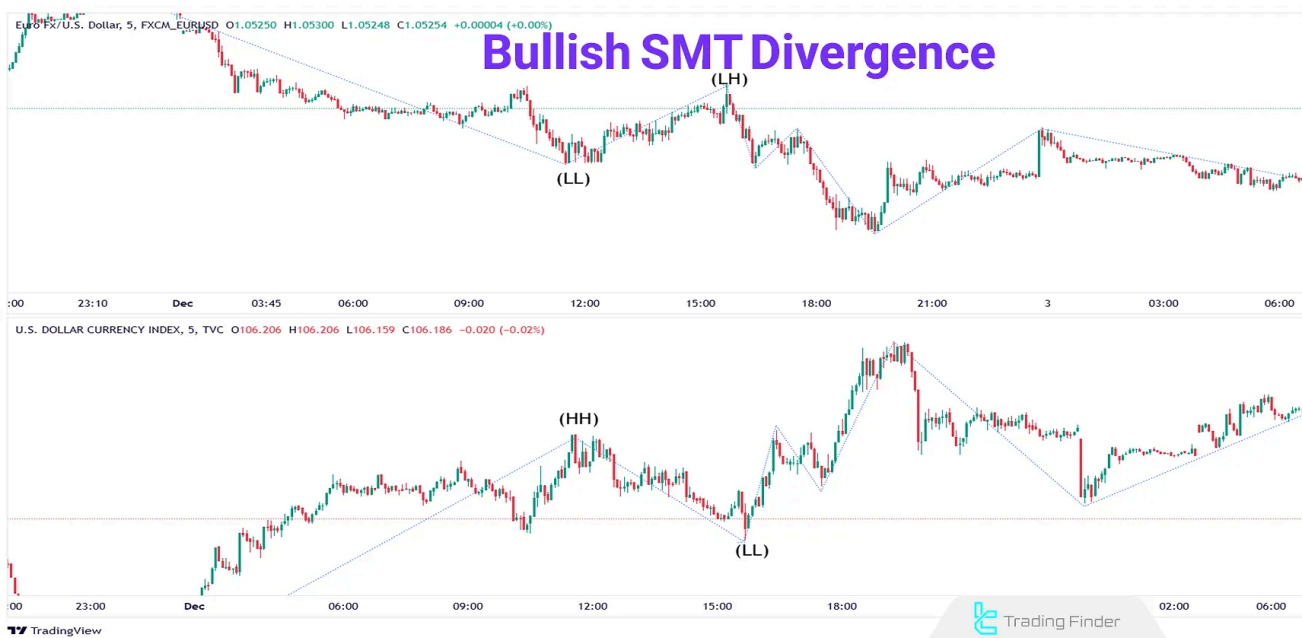
Bullish SMT Divergence in positively correlated assets occurs when **both** are **trending downward**, but one forms a Lower Low (LL) while the other forms a Higher Low (HL).



Bullish ICT SMT Divergence between Euro to US Dollar (EUR/USD) and British Pound (GBP/USD)

In negatively correlated assets, Bullish SMT Divergence happens when **one asset creates a Lower High (LH)**, while the other forms a **Lower Low (LL)** instead of a **Higher Low (HL)**.

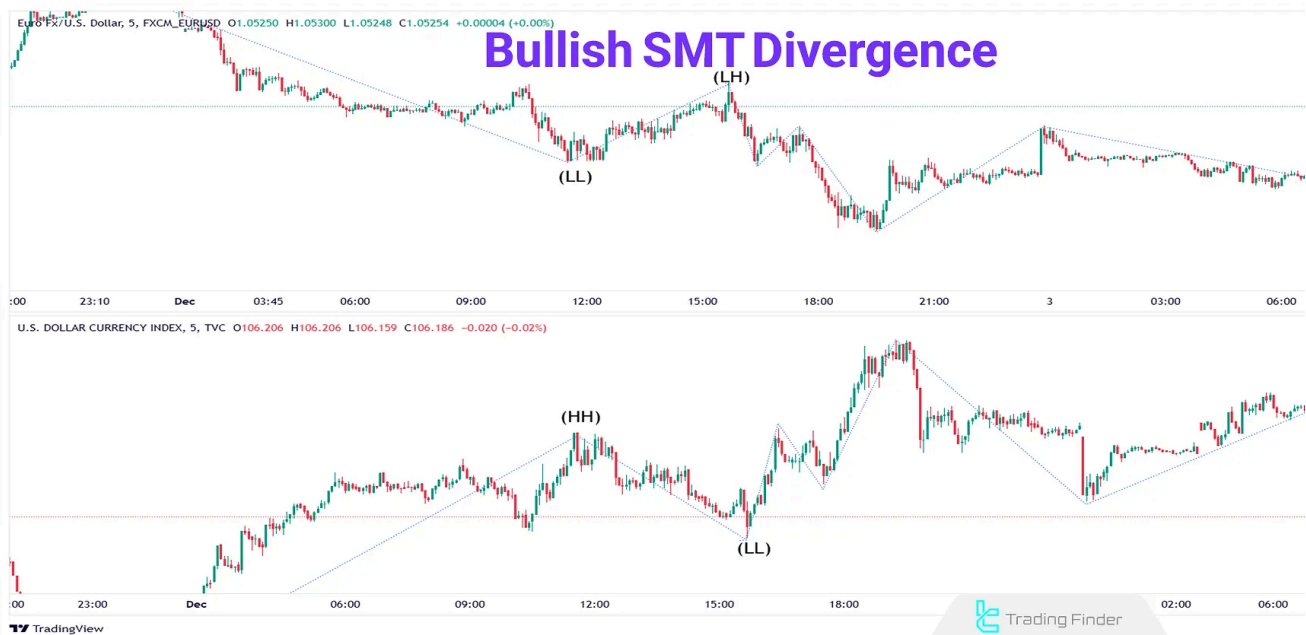
A specific asset that forms a **Lower Low (LL)** instead of a **Higher Low (HL)** is considered manipulated, and the SMT divergence in it indicates a **bullish** reversal.



Bullish ICT SMT Divergence between Euro to US Dollar (EUR/USD) and US Dollar Index (USDXY)

Bearish SMT Divergence

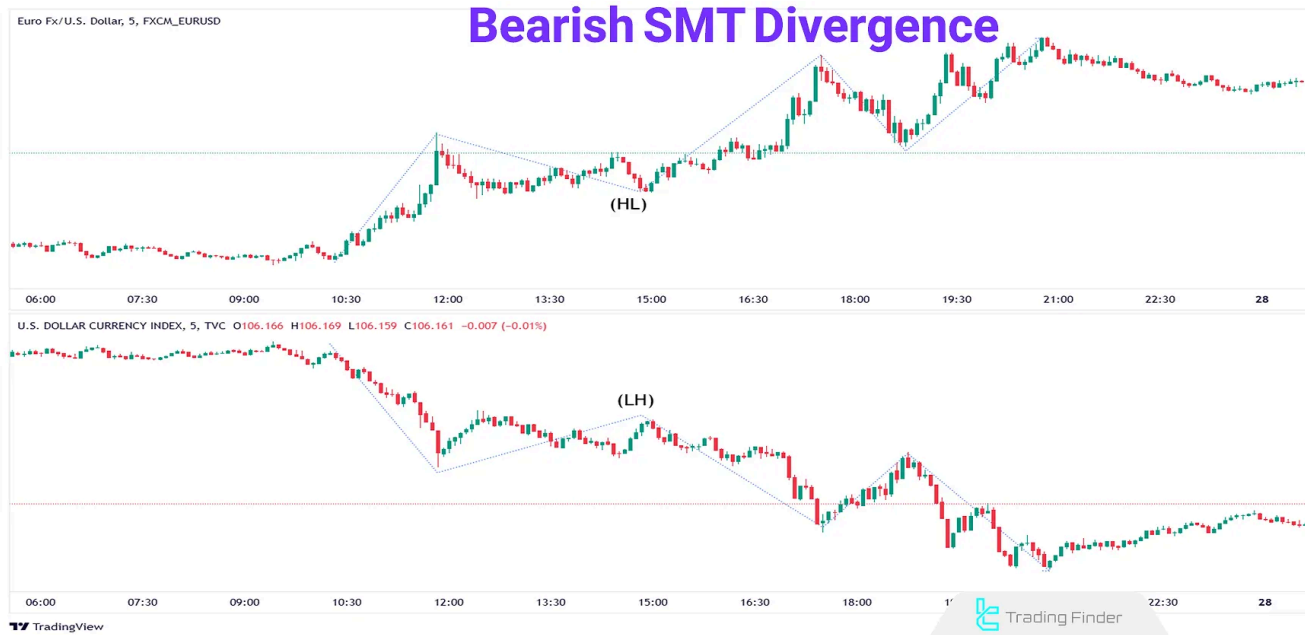
Bearish SMT Divergence occurs in positively correlated assets when both are **trending upward**. It happens when one asset forms a **Higher High (HH)**, while the other forms a **Lower High (LH)**.



Bearish ICT SMT Divergence between Euro to US Dollar (EUR/USD) and British Pound (GBP/USD) is Visible in The Picture Above

For **negatively correlated assets**, **Bearish SMT Divergence** happens when one **asset** forms a **Higher Low (HL)**; while the other forms a **Lower High (LH)** instead of a **Higher High (HH)**.

Therefore, an asset that forms a **Lower High (LH)** instead of a **Higher High (HH)** is considered manipulated, and the SMT divergence in it indicates a **bearish** reversal.



Bearish ICT SMT Divergence between Euro to US Dollar (EUR/USD) and US Dollar Index (USDXY)

ICT SMT Divergence Indicator

TFLAB team designed the ICT SMT Divergence Indicator based on **ICT** and **Smart Money** techniques.

This **indicator** compares the charts of three different but related **assets**, graphically displaying **bullish** and **bearish divergences** on **price charts**.

- ⚡ ICT SMT Divergence Indicator for MetaTrader 4
- ⚡ ICT SMT Divergence Indicator for MetaTrader 5
- ⚡ ICT SMT Divergence Indicator for TradingView

Optimal Timeframe for Identifying ICT SMT Divergence

As an **entry technique**, the best **timeframe** to monitor **ICT SMT Divergence** is **15 minutes** or less.

Monitoring it on higher **timeframes** might result in delayed formations and missed opportunities.

Conclusion

Typically, **correlated assets** in **financial markets** move symmetrically. **ICT SMT Divergence** helps **traders** identify key **reversal points** by comparing the charts of two **correlated assets**.

Initially, **ICT** introduced **SMT Divergence** for **NQ (Nasdaq 100)** and **ES-Mini (S&P 500.)** Over time, the applicability of SMT Divergence in other markets has been demonstrated.

The reliability of SMT Divergence increases with a **stronger correlation** between assets.

FAQs

What is SMT Divergence in Trading? ∨

ICT SMT Divergence, also known as the **Smart Money Technique (SMT)**, indicates a **trading market** situation where two **correlated assets** display opposing **structures** within the same **timeframe**. ∨

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