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

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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

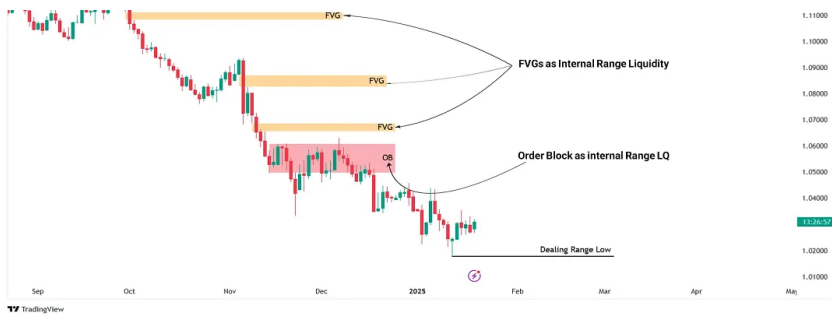
These areas often accumulate **buy-stop and sell-stop orders**, acting as **liquidity sources** in forex and driving **significant bullish** and **bearish price movements**.

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?



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

Which Liquidity Levels Are Most Important in Forex?

Forex live spread

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**.

Trading tools

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**



Trading tools

Formation of Failure Swing Lows and the Creation of Low-Resistance Liquidity (LRLR)

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**. [Trading tools](#)


FAQs

What is liquidity in financial markets? 

How can traders identify internal and external liquidity? 

What is the difference between buy-side and sell-side liquidity? 

What is a Failure Swing? 

How can traders use Draw on Liquidity? 



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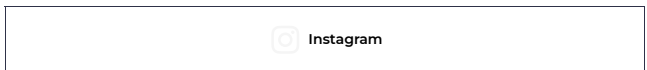
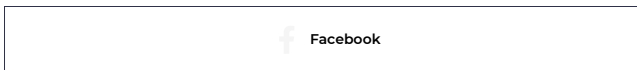
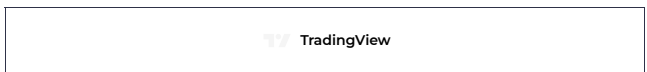


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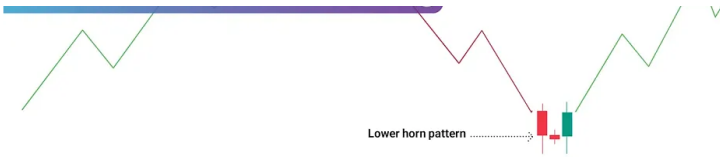
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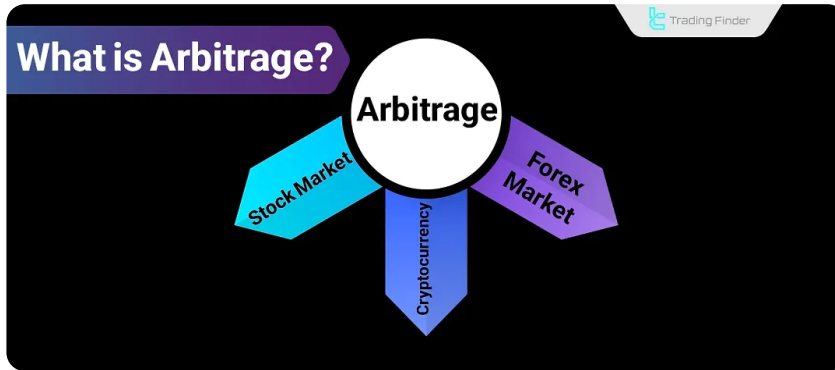




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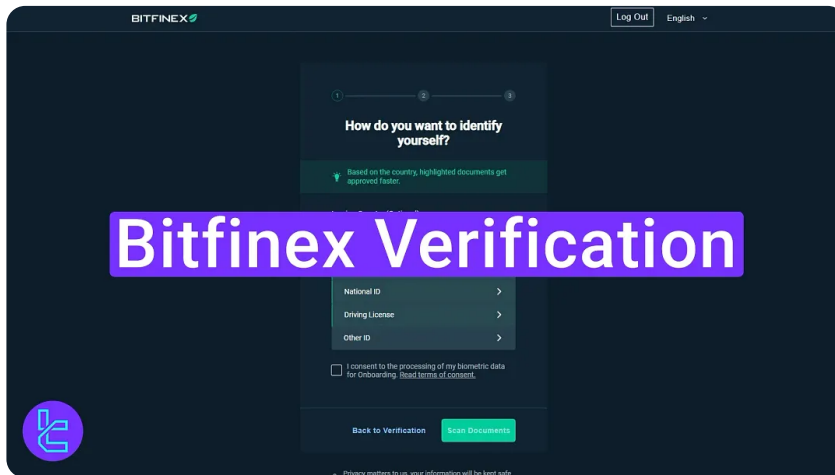
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