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Identifying key levels with OANDA's MT4 Open Order Indicator

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For many years, institutional traders and dealers have enjoyed access to client flow information through their order book, which enables them to quickly identify important levels in the market. These insights can deliver a strong competitive edge.

Thanks to OANDA's MT4 Open Order Indicator, retail traders now have access to this information, which can be used to create a real-time order book for a wide range of currency pairs.

EUR/USD

Sentiment: Short

1,2460	Buy stops
1,2440	Offers
1,2400	Buy stops
1,2370	**Current**
1,2360	Sell stops
1,2330	Bids
1,2300	Bids

GBP/USD

Sentiment: Long

1,5770/80	Offers
1,5730	Buy stops
1,5680/00	Offers
1,5667	**Current**
1,5650/60	Bids
1,5630	Bids
1,5600/10	Sell stops

USD/JPY

Sentiment: Short

120,80	Offers
120,15	Buy stops
119,80	Offers
119,34	**Current**
118,60	Sell Stops
117,80	Bids
117,40/50	Bids

AUD/USD

Sentiment: Short

8425	Offers
8375	Buystops
8340	Buy stops
0,8309	**Current**
8280	Bids
8240/50	Bids
8215	Sell stops

NZD/USD

Sentiment: Short

7790/00	Offers
7765	Buy stops
7725	Offers
0,7690	**Current**
7650/60	Bids
7620/25	Bids
7600	Sell stops

USD/CAD

Sentiment: Long

1,1505	Offers
1,1480/90	Offers
1,1460	Buy stops
1,1462	**Current**
1,1435	Sell stops
1,1415	Bids
1,1390	Sell stops

An example of an order book

The charts featured in this manual are for illustration purposes only

Introducing the order book

Much like the example opposite, an order book contains a list of orders that represent the levels at which buyers and sellers are interested in transacting on a currency pair. In foreign exchange, there is no central clearing hub and as such the actual volume of orders is unknown, so the order book acts as a list of influential price levels.

Interbank forex trading has always been about order flow information. By knowing where client orders are placed, bank traders could execute short-term trades with confidence. With the MT4 Open Order Indicator, retail traders now have access to similar information about OANDA's client base, notably where stop orders and limit orders are concentrated.

The order book allows traders to highlight key levels on their charts. These levels suggest where buy orders have a high probability of acting as support and make for potentially good long entry levels if the trend is up, or profit taking levels if the trend is down. Conversely, they suggest where sell orders have a higher probability of acting as resistance and make for potentially good short entry levels if the trend is down, or profit taking levels if the trend is up.

Building an order book

Using EUR/USD as an example, you should include the following information when you are building your order book:

EUR/USD

Sentiment: Short ●——— Market sentiment

1,2460	Buy stops	● 1. Buy stops – open orders non-cumulative
1,2440	Offers	● 2. Offers – open positions non-cumulative
1,2400	Buy stops	
1,2370	**Current**	
1,2360	Sell stops	● 3. Sell stops – open orders non-cumulative
1,2330	Bids	
1,2300	Bids	● 4. Bids – open positions non-cumulative

A sample EUR/USD order book

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To find the necessary data to create an order book, follow the simple steps below. The following example uses EUR/GBP.

1. In MT4 open two EUR/GBP charts
2. Insert OANDA'S Open Order Indicator on both charts
3. On one chart, select *Open orders, non-cumulative*, while on the other select *Open positions, non-cumulative*
4. Click *Tile charts* button so they are placed next to each other, making it easy to extract the relevant information

Tile Charts button
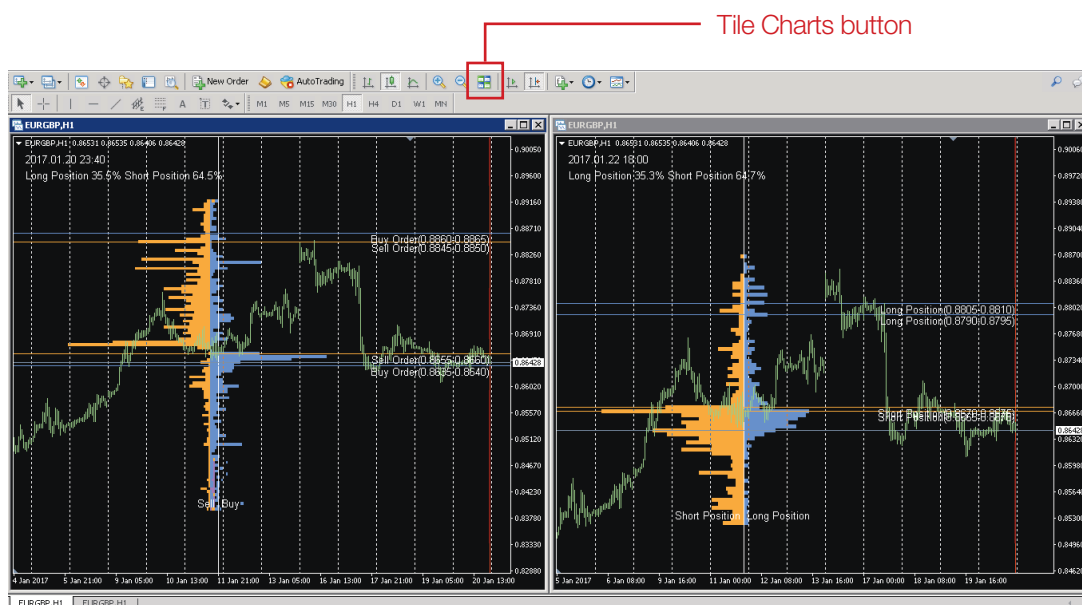
OANDA's MT4 Open Order Indicator applied to EUR/GBP

5. Identify current market price – The charts show the current market price is between 0.86428 and 0.8643, rounded to the pip
6. Identify current retail sentiment – Both charts demonstrate a 64.5% short position, so retail sentiment is short
7. Identify buy stops including stop entries and stop losses – On the open orders chart, the blue bars extending beyond the current market price show buy orders at 0.8860, revealing an evident order imbalance at around 0.8810
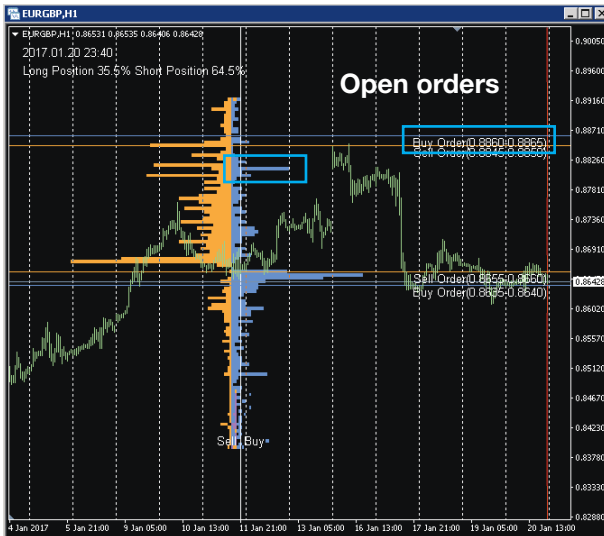
Large buy orders above current market price reveal buy stops

8. Identify sell stops including stop entries and losses – On the open orders chart, the orange bars extending below the current market price should identify sell stops, however there aren't many visible in this example. This is because most traders are short at levels slightly above market, so there are very few stop losses below market and no evident levels where stop entry orders have been inserted. In cases where no evident orders are illustrated, you could use round numbers (such as 0.8600 or 0.8500), which often act as support or resistance.
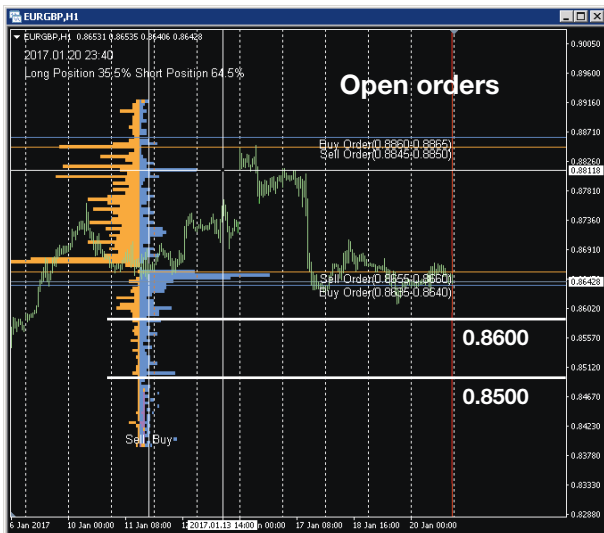
Large sell orders below current market price reveal sell stops

9.   Identify offers (sell orders to close existing long positions or open fresh short positions)
     – On the open positions chart, the blue bars extending beyond the current market price
     identify long positions opened between 0.8790 and 0.8810. Since these positions have
     been in a drawdown for a long time, it's likely they will be sold if the price reaches the
     entry point.
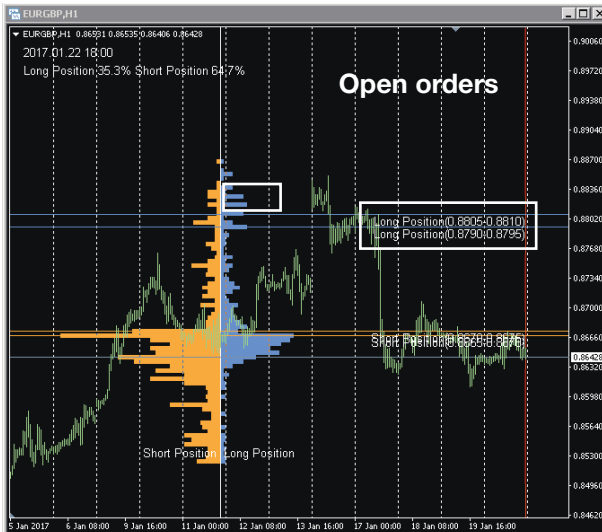
Large long open positions above market price reveal offers

10. Identify bids (buy orders to close existing short positions or open fresh long positions) –
     On the open positions chart, the orange bars show the largest shorts are above current
     market price and therefore aren't useful. However, looking lower on the price ladder, a
     solid number of shorts have opened between 0.8540-55 and 0.8588, which have seen
     price movements more than 300 pips against them. Since these shorts have been in
     a drawdown for a long time, it's likely these positions will be bought back if the price
     reaches the entry point.
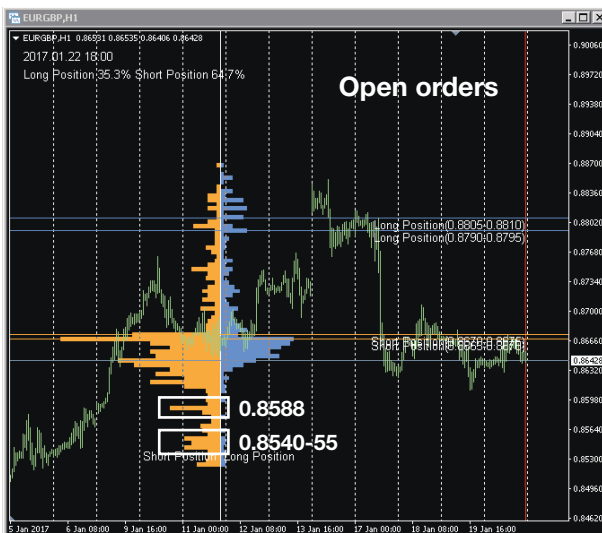
Large short open positions below market price reveal bids

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11. Create your order book – Based on the information highlighted so far, the order book would look something like this:

EUR/GBP

Sentiment: Short

0,8660	Buy stops
0,8810	Buy stops
0,8790 - 0,8810	Offers
0,8643	**Current**
0,8600	Sell stops
0,8588	Bids
0,8540-55	Bids
0,8500	Sell stops

The importance of buy and sell stops

It's a well-known fact that stop orders offer liquidity – a large amount of buy and/or sell orders around a certain price. This fact is important because larger market participants need liquidity in order to enter big orders. In other words, large market participants need liquidity when entering their trades in order to reduce the amount of slippage they incur.

Put simply, stop order clusters are where large traders are likely looking to enter or exit the market, and they do so with ease due to the available liquidity at these levels. Stop order levels are effectively a two-way street where larger traders enter or exit the market, and their course of action depends on whether the market is trending or ranging.

OANDA's Open Order Indicator allows traders to clearly see stop loss clusters ahead of time and prepare accordingly. In order to do this, they may look for large clusters of buy stop order bars above current market price as well as large clusters of sell stop order bars below current market price.

Once these levels have been identified, smart traders check the state of the market before acting. If the market is trending up, they may anticipate buy stops above the market will continue to push the price upwards. Basically, these stops are temporary points that will likely be pushed through as the trend continues. The reverse is true of sell stops. Sell stops below the market will continue to support the downtrend as the price presses through.

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The power of the order book

With OANDA's MT4 Open Order Indicator, retail investors can build an order book that is just as effective as those used by institutional traders, and the importance of the information revealed should not be underestimated. Knowing how to construct the order book allows traders to organise Indicator data in an orderly and effective way.

However it is not advisable to trade the order book on its own. Instead, retail traders should first select the currency pairs most suitable for their strategy. For example, a trend-following strategy will first require the trader to select currencies in an established trend. Only once the market type is aligned with the strategy does the order book become useful. Instead of using pure technical indicators or discretionary inputs to select entries, the order book can assist in highlighting:

- Levels where there are large numbers of buy orders (bids) – These make for potentially good long entry points if the trend is up or potential support if the trend is down
- Levels where there are large numbers of sell orders (offers) – These make for potentially good short entry points if the trend is down or potential resistance if the trend is up
- Levels where there are a large number of stop orders – These make for equally good buy or sell levels if they are in line with the trend

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