



HowToTrade

# ORDER BLOCKS IN FOREX TRADING [PDF]

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# Order Blocks in Forex Trading

Order blocks are a unique trading technique or theory at which traders aim to identify price levels where large institutions and investors enter the market.

This Order Blocks in Forex pdf will show you how to identify and use this concept on your chart.

## What Are Order Blocks in Forex?

An Order Block in trading forms where central banks or large financial institutions accumulate large quantities of a particular asset through one big order. Usually, they serve as footprints for the flow of money in and out of an asset.

They are [supply or demand zones](#) in which big players can find the comfort of placing large buy and sell orders and completing a big, very big transaction. However, banks and financial institutions cannot place a huge order to buy or sell an asset as they might trigger unexpected moves and create high volatility.

So, as central banks and institutions typically aim to buy or sell valuable assets that are used by ordinary people and have day-to-day uses, they must create these special orders known as “blocks.”

Basically, they split their orders into blocks, enter the markets, make a purchase, and disappear. Then, they do the same repeatedly until they reach their target. For example, if a large bank has to buy 200M EUR/USD, they will make this purchase in three, four, or even more steps.

Additionally, in many cases, they use sophisticated orders not to disclose their involvement in the markets. For example, they use an order that shows 1 on the bid or sell side, although they have a block of 1000. Other traders cannot know that, and this is one method in which central banks and institutions achieve their goal without adding volatility to the markets and drastically changing prices.

## Order Blocks Forex Trading Example

As we explained above, order blocks are a collection of orders made by large financial institutions, central banks, and governments.

If you are using [level 2 market data](#), you might be able to identify them by seeing above-average order quantities without any significant consideration of the price. This is how central banks and large investment banks typically make their purchases – buying large amounts of the asset at a narrow range of prices.

However, suppose you are using level 1 market data and mostly rely on trading charts as your information market structure. In that case, you are required to identify an accumulation or distribution phase on price charts. The first refers to a bullish order block, and the second to a bearish order block.

## 1. Bullish Order Blocks

A bullish order block (BuOB) is a situation where a central bank or a big financial institution accumulates large quantities of a specific currency. For example, let's say the Japanese central bank (BoJ) aims to weaken the value of the Japanese yen versus the US dollar to stimulate Japanese economic growth. In this situation, the BoJ will enter the foreign exchange market and buy lots of US dollars.



As you can see in the USD/JPY 4H chart above, the market was trading in a tight range for a long time. During this time, we can see several candles with high trading volume at which buyers accumulate the asset (the candles with high trading volume are primarily green).

Then, as soon as there's a price break above the resistance level, it is very likely that the bullish trend will continue.

## 2. Bearish Order Blocks

Now, let's assume a central bank involved in the reverse currency war is entering the market to sell the counter currency and strengthen its currency's value. For this bearish order block (BeOB) demonstration, we'll show an example of the US dollar versus the Swiss Franc (USD/CHF).



The distribution area shows that a big player sells large amounts of USD and buys the Swiss Franc. Expectedly, when the price breaks the support level, the price falls in the direction of the big player's intention.

## 3 Things to Consider When Using the Order Blocks Forex Trading Strategy

Order blocks are a unique trading strategy that helps traders find a direction in the market. Usually, it allows traders to find out what financial institutions are planning to do in a particular market and better indicate the next price movement.

To successfully utilize the order block trading strategy, you should consider the following tips:

### 1. It Does Not Happen Every Day

As you can assume, finding order blocks in the markets is not something you can search for or add to your [Forex trading plan](#).

No one knows when central banks or prominent players enter a market, and you certainly do not get any announcements that it's about to come. Also, order blocks are not a frequently occurring phenomenon but a rarely-occurring situation.

Therefore, you cannot rely on order blocks as your trading strategy; instead, simply integrate them into your trading system and use them whenever you learn to identify order blocks in the market.

## 2. The Longer the Range, the Bigger the Move

Usually, during the distribution or accumulation phase, markets tend to trade sideways and move in a specific direction once the pile-up is completed. When that happens, there is one rule to keep in mind – the longer the range, the bigger the liquidity, and then the bigger the move.

For that matter, it is crucial to use the [Wyckoff chart pattern](#) and market theory. Based on this strategy, a trader enters a position once the price breaks above or below the resistance or support level, hence, utilize the breakout trading strategy.

Remember that in many cases, central banks and big institutions want to extend the range period so it would be easier for them to complete their purchase around the same level of prices and without having to deal with high volatility and trending markets.

## 3. Use Volume Indicators

Another crucial factor to remember when using order block trading strategies is combining volume indicators. The reason for this is that you want to find out if the accumulation period is characterized by high volume and if there is a big player that indeed accumulates the asset in the specific supply or demand zone.

As we mentioned, order blocks seem like a ranging market, but that does not mean every range is an order block. So, to ensure the range is an order block situation, it is best to use a volume indicator to confirm that the trading volume is unusual. Some popular volume include [the volume price-trend indicator](#), [the VWMA indicator](#), [the Klinger volume oscillator indicator](#), and [the on-balance volume indicator](#).

# How to Trade Order Blocks: Step-by-Step Process

Here are the steps you need to follow when trading order blocks:

1. Identify ranging markets with high trading volume.
2. Look for a significant accumulation or distribution orders in the market.
3. Confirm the signal with other technical analysis tools such as moving average, volume indicator, and Fibonacci retracement levels.
4. Enter a trade when the price breaks above or below a resistance or support level.
5. Place a stop loss order below or above the breakout support or resistance level.
6. Monitor your trade and exit a position when you notice a significant trading volume in the market.

Another way to trade order blocks is to mark them out on the chart. They may be useful as supply and demand zones in future price action. As a result, the price sometimes returns to them and bounces back in the direction they came.

For instance, a bullish order block can serve as a demand zone from which the price reverses to the upside. And conversely, a bearish order block may serve as a supply zone from which the price reverses to the downside.

So, a retail trader can take advantage of this by setting a pending order at the appropriate order block. For instance, they may scout for sell entries at bearish order blocks or take buy trades at bullish order blocks. Of course, it is always better to await confirmation that the order blocks are about to reverse the order flow before placing trades at those levels.

## What are the Benefits and Limitations of the Order Blocks Forex Trading Strategy?

### Pros

- Advantageous trading strategy
- Order block trading is an effective strategy, particularly in the foreign exchange market.
- Help traders find out what central banks and financial institutions are doing.

### Cons

- Not easy to find order blocks
- Requires the use of other volume indicators