



Trading with Global Order Flow Analysis

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There is a risk of loss in trading over the counter foreign exchange. Investments into such market should be undertaken under very risk controlled instances. Clients should also consider other relevant risk factors such as their personal financial situation and their available risk capital. OrderBookFX is not responsible for any use of data provided for in our services.

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Supply of History and Demand for Evolution

Retail investors began entering the marketplace in the mid 1990's with online brokerages like CMC Markets. CMC provided access to spot FX with two way pricing based on liquidity from institutional networks and trade warehousing. In the past 15 years we've witnessed a countless number of broker start ups, some were short lived and others had a more mindful business model in place. As the numbers increased, this provided a more competitive marketplace for customers to chose from. Trading spreads reduced with this competition and have done so even to the extent that brokers offer no spread, just to obtain the trade flow from unsuspecting customers. The fact remains that well over 80% of market participants lose money for what becomes a long list of reasons. Some of which are risk management, trade set up, fundamentally flawed theories and on and on. So retail FX has remained a double edged sword for too many years. Yes the market has developed some exceptional trading tools in many forms and product lines, from trading software to analytical charting packages and even execution and signal services. But if the retail sector is unable to objectively view the market in its entirety then the opaque view has not been changed and the market as a whole is still suited for the institutions to generate exorbitant gains at the expense of the uninformed. Not a single trading strategy would survive without a completely transparent view of its competition, and all the regulation in the world provides no benefit comparable to the transparency that FX so desperately needs. We deliver this transparency.

Introduction

OrderBookFX has broken the veil of opacity to provide true market transparency to an industry segment that remains disjointed. The aim of Black Light Data is to accompany this transparency with a unique set of tools for its customers. Today thousands of banks feed liquidity into private platforms and dealer networks, each of them providing a small slice of global transactional volume, while no specific network provides users a view of overall supply and demand, OrderBookFX does.

There are extensive research papers on market micro-structure and price discovery mechanisms. We have developed an architecturally advanced liquidity network that not only includes the ability to analyze published theory, but also encompasses the technology to develop new strategies and analytical models. Our framework provides the access and integration of data previously restricted to the astute trader . Our low latency analytical structure permits access of such high frequency data by third party transactional engines and analytical platforms for liquidity analysis and system development. We provide affordable access to data that all other analytical data feeds only dream of. We hope that you find us helpful in your day to day trading and look forward to hearing from you in our forum which can be found at <http://forum.orderbookfx.com>

Spot FX Market Evolution

In our founding partner's 20 years of experience he has developed several trading applications and tools, all of which were designed specifically to assist the trader in making decisions more seamless and spontaneous. He has built ultra high frequency latency arbitrage solutions, statistical arbitrage platforms, triangular arbitrage engines and auto dealing systems. These were all welcomed by a marketplace that still seemed to be rightfully secretive about information that could lead to an proprietary advantage. And from what he witnessed in 20 years, the market place has not fundamentally developed one bit. It is still quite opaque to the uninformed trader and that's whom we thought needed the most help.

In 2010 a view of the marketplace was still lacking from the retail traders perspective. It hungered for transparency, but how was a market that lacked regulatory insight into providing such going to deliver it? Many discussions have taken place regarding centralized FX. This is merely a pipe dream as the very premise of free trade requires a freely exchangeable currency structure, anything else is merely communistic.

Our model for providing transparency to the market as a whole is to level the playing field for all. No longer can the brokers purely take advantage of customers inability to see continuous sentiment and money flows across international borders. Black Light Data has produced a truly global aggregation of such transparency. Our architecture is such that it's available for everyone to see without restriction and it is useable for manual and automated trading functionality.

You have in your hands many years experience in market research and trading practice in a desktop application that truly makes the whole world, one small trading room. For the futures traders who are familiar with being in an open outcry pit on the CME or CBOT, OrderBookFX aggregates global liquidity into a low latency sentiment function with desktop visualization. Now the world is a virtual trading pit. Imagine standing next to your trading counterparts while they all decided simultaneously to sell short EURUSD, would you still wish to execute your buy order? Now you can look over the fence and see your neighbors intentions on large scale as this is the focus of OrderBookFX.

Price Discovery

Now that you understand why OrderBookFX was developed we can dive into the crux of trading with order flow. We have painstakingly sifted through streams of liquidity to provide you a unique view of the marketplace as a whole.

Trading with order flow requires an understanding of its dynamics. We must therefore briefly digest the role of market makers relative to supply and demand. This is by far the most prominent price discovery fundamental when it comes to understanding what's happening with order flow.

Supply/Demand economics is simple, more buyers than sellers -- prices move upward. More sellers than buyers -- prices retreat lower. For limit order books its a bit different as dealers who quote into global ECN's do so to generate an income on the spread from their customer orders. In today's marketplace the majority of retail operations provide their customers with trading applications such as MetaTrader. This is what we see as 'closed end' system as they themselves have no direct connection to the marketplace beyond what the market maker permits and unfortunately that's very limited. As a trader using MetaTrader or any closed end system, your limited to seeing the two way pricing that the broker is willing to provide you and true market depth is not available. As a market FX Depth of Market has not been available until the recent publicity of OrderBookFX. For a market maker to stay profitable they have to keep their customers 'in the dark' and take the spread each time the customer makes a trade. Most of the time dealers book their profits by purely trading against their customers trades in the case of retail FX operations. This lack of transparency is the purpose of OrderBookFX. Black Light Data has not only developed a product to provide you leading access to global supply and demand, but we show you statistically which methods are more profitable. Most of our tools adjust perfectly as the market changes so rarely will you ever see a strategy or indicator that becomes less effective in any time set. We've integrated evolutionary architecture to make sure we are always on the leading edge of strategies.

Supply and Demand

Order Equilibrium

Now to the Market Makers. Were going to stay away from detailed examples here, but the concept is rather simple. A market makers pricing is dependent upon customer orders. A market maker is in the business to turn over inventory and reduce risk by limiting the duration of trades. Lets look at your brokers pricing... at the time you and your neighbor decide to buy and sell 100,000 EURUSD, your brokers price quotes are 1.3501 to 1.3503, your broker has to do nothing because he has sold you the 100,000 EURUSD that he has bought from your neighbor. At this point, supply and demand are in balance. Now lets use the same concept and assume your broker simultaneously received 10 orders selling 100,000 EURUSD. They confirmed the price to their customer as they BOUGHT the inventory of 1,0M EURUSD. Now, they must enter the market and sell 1,0M EURUSD. This trade becomes a balancing trade of the first ten trades in the closed system, but the broker can take this opportunity to sell openly on an ECN or book the profits themselves against their customers losses. The market maker has the decision to book the trade themselves or place an offer in the market to sell 1,0M at (price), slightly higher than the price that they purchased it for, but at a level that would make the trades profitable.

Price Movement

There are a number of well published theories as to order book imbalances and execution strategies within a limit order structured system of exchange. The supply and demand equation within OrderBookFX is presented for you in our sentiment bar. You're able to select the depth that you wish to monitor and the sentiment bar is calculated for you, providing you a gauge to objectively watch the market.

It's well published and rather logical that price movements are the direct result from an imbalance between buyers and sellers. And rather identical to any other Limit Order Book marketplace, spot foreign exchange also needs an imbalance for price movements to take place.

OrderBookFX's Market Maker Sentiment

When we speak of supply and demand we are talking about the sellers and buyers in a given currency pair. Market Makers are both sellers and buyers and their pricing is based upon a number of factors including customer order flow and the pricing they are able to obtain through other trading venues.

Currenex, HotspotFXi, Integral, FXAll and LavaFX are institutional trading venues. Each with their own limit order book. Their prices will correlate most of the time and randomly will throw off arbitrage opportunities between them. [\(See Rockshore Partners for latency arbitrage, triangular arbitrage and market making solutions.\)](#)

There are three networks that we have purposefully not mentioned here and those are EBS and Reuters and Bloomberg. With EURUSD, EBS captures 60% of bank transactional volume each day. That's significant two in aspects. When looking to possibly aggregate data from EBS into our distribution, we knew that it would provide fair volume interpretation as we have done already. But economically we would not be able to provide the same price structure for our subscribers.

*** Our plans do include integration of EBS as an add-on product.

It's a well known fact that EBS, Reuters and Bloomberg are the large networks. And if you don't already trade on them you're looking to in the future. With EBS specifically - we know 25% of global volume is traded daily there and that the rest of the networks: Currenex, HotspotFXi etc. trade around these prices. This itself is critical information when you relate it to the objective of the market makers.

At this point, by not including EBS we have in theory included its actions and provided a clear picture of actual trade flow within it. How? A rather simple price discovery mechanism by use of sentiment is what's warranted here. The smaller networks trade around the actions on EBS, a clear statement of fact and crucial to effective price discovery. After the smart money sells on EBS they also provide liquidity into the smaller networks with bids, capturing the difference and the masses selling to follow suit thus creating a passive yet rather quick arbitrage opportunity. Remember that the market makers purpose is to provide liquidity and they do this not only to their customers but to networks as well.

So, if a pair is being sold on EBS, on OrderBookFX it is identified as a market makers Bid. Remember a market makers objective is to make quick profits and they do this between two networks just as much as customer order flow. Therefore, the magic in OrderBookFX is that by visually seeing significant Bids by market makers, they are the result of selling pressure on the larger networks. This is a huge advantage to the trader who does not have access to prices or execution on EBS because with OrderBookFX you can follow suit and join the movement.

Statistically Speaking

We are currently developing a statistical model that will be available for free. This will allow users of OrderBookFX to analyze in real time the statistics on liquidity shocks and price movement. This will provide a significant advantage for all users of OrderBookFX.

Using OrderBookFX

Turning it On

(When installation of OrderBookFX is complete, this screen will pop up in a notepad for viewing.)

Upon installing OrderBookFX, you should see a black icon with the blue OrderBookFX "O" next to the clock in your task bar. Right-click this icon at any time to access OrderBookFX features, log in, log out, etc.

Getting Started: First, you'll have to log in. Right-click the icon next to the clock and select "Log In". Enter the user name (your email address) and password you created at OrderBookFX.com.

Once logged in, right-click the same icon and select "Settings..." Select the "Subscriptions" tab. Here you'll see every currency instrument we offer in the Available column. Select the instrument you want to view and click the "->" button. You can multiple-select instruments, but the FXLite service only permits 5 subscriptions at a time. Select the "Apply" button when done.

KEEP IN MIND THAT THE MORE INSTRUMENTS YOU SELECT,
THE MORE DATA THAT WILL BE SENT TO YOU AND
THE BUSIER YOUR NETWORK WILL BE

Your subscription choices are saved and will be automatically used whenever the Stream Service starts.

Select any options you'd like on the "General" tab. If you're not sure what to select, just leave the defaults for now.

Now you're ready to view the order book!

Right click the icon again, and this time select "Launch Viewer"

A black-background viewer window will appear, with your currently subscribed instruments listed. Select the instrument for the first grid position and you'll see the book appear. You can adjust the window vertically to expand the view of the book.

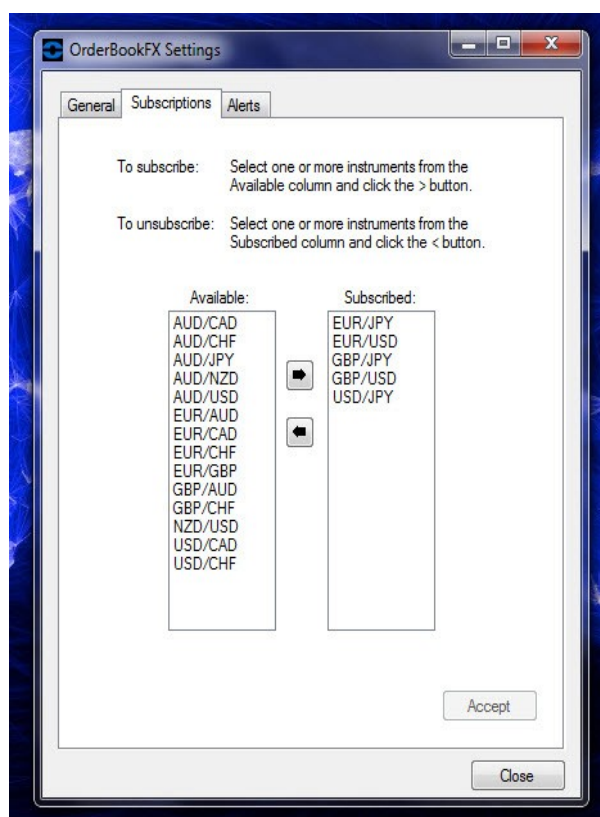
To adjust grid options, such as price resolution, sentiment bar options, etc, select the "<" symbol just above the grid scroll bar (next to the word "Ask").

To add more grids, select the "+>" icon on the right.

To delete a grid, select the "<" symbol and choose the "Delete Grid" option.

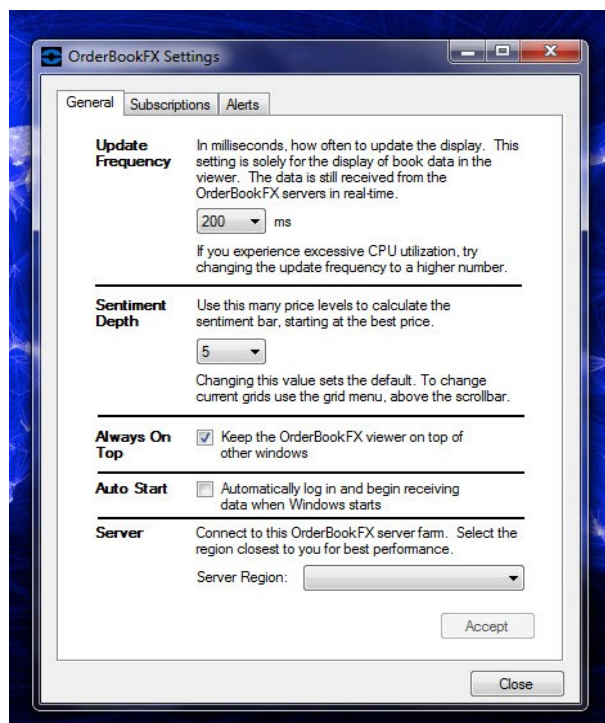
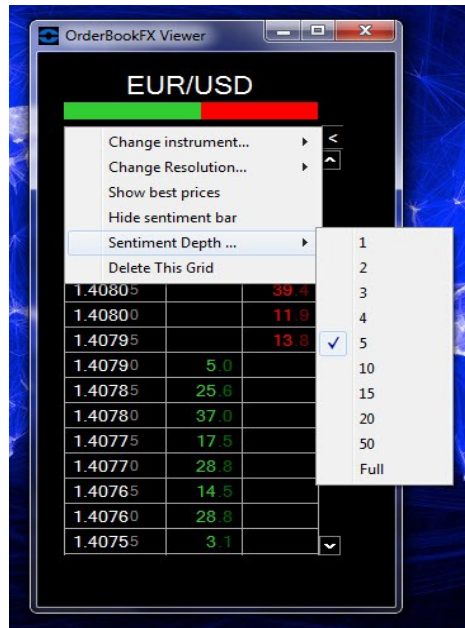
Subscriptions to Pairs

FXLite provides up to 5 streams of pairs in depth. FXBook provides streams of all pairs available in OrderBookFX. Subscribing to a pair is done from the settings window.



Sentiment Depth

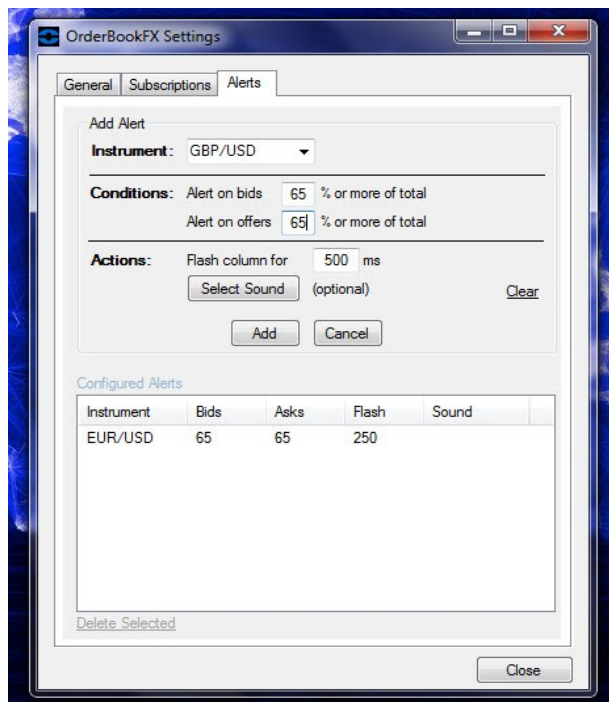
By setting sentiment depth you adjust the natural band that the OrderBookFX sentiment bar monitors. To do this go to either the settings tab on the windows tray icon or the settings function on a FX grid.



Setting an Alert

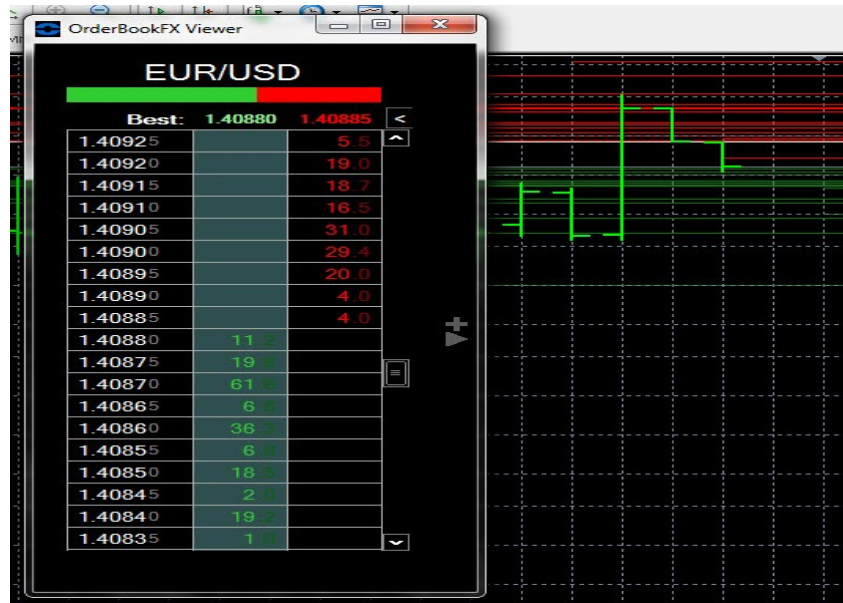
Alerts are useful for users of OrderBookFX. Herein lies the visual and audible notification that a price movement is imminent. Remember, based on price action on EBS, Market Makers trading across venues place bids or offers in the expectation that prices will go that direction and thus equalize their position and provide them profit.

Use the alerts function and monitor market movement with the sentiment bar as both are interconnected. The sentiment bar based on sentiment depth and the alerts being calculated as a percentage of the depth and volumes at that preset depth.

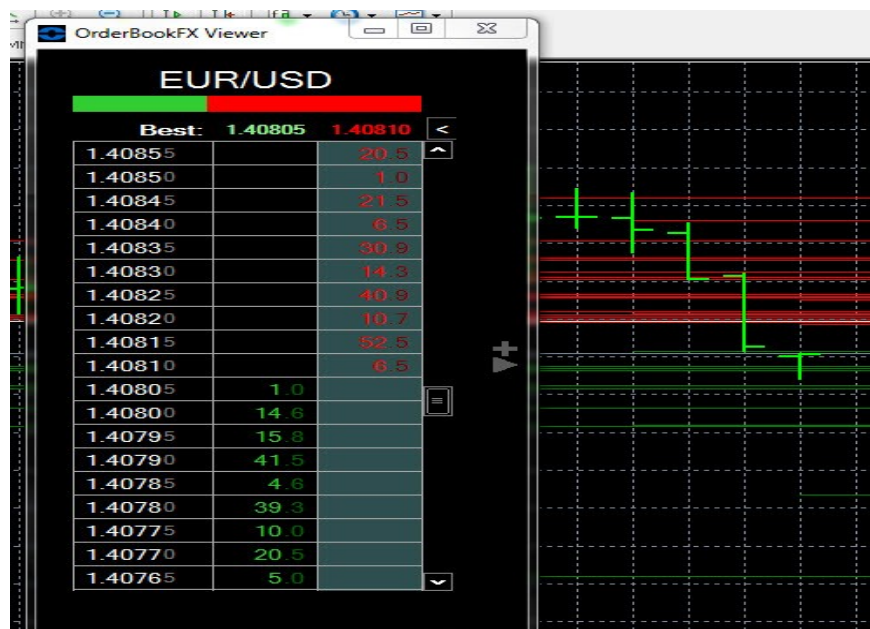


Seeing Alerts

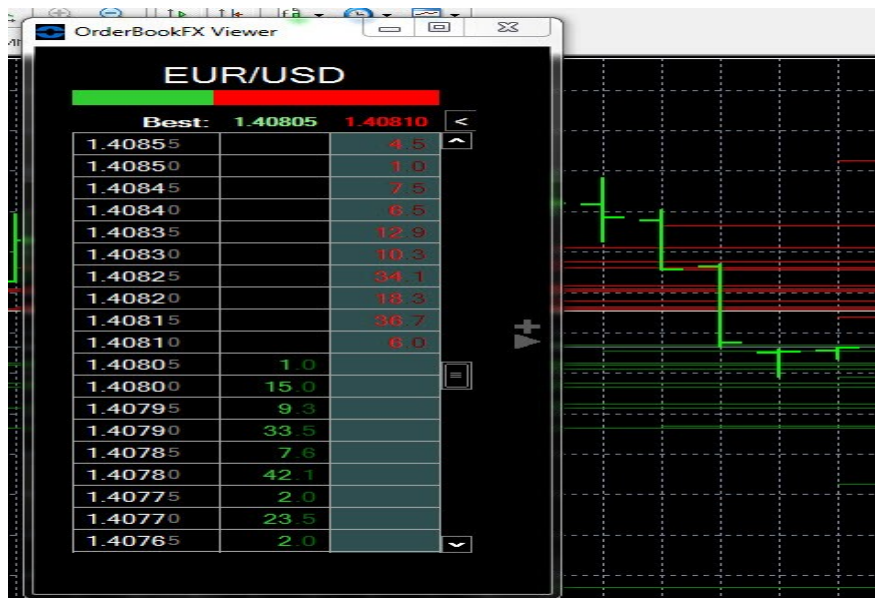
Using OrderBookFX as a visual price verification system is rather simple. First we ask that you keep in mind market makers objectives with providing liquidity based on very short term trading styles. These trades last mere seconds and take place thousands of times each day.



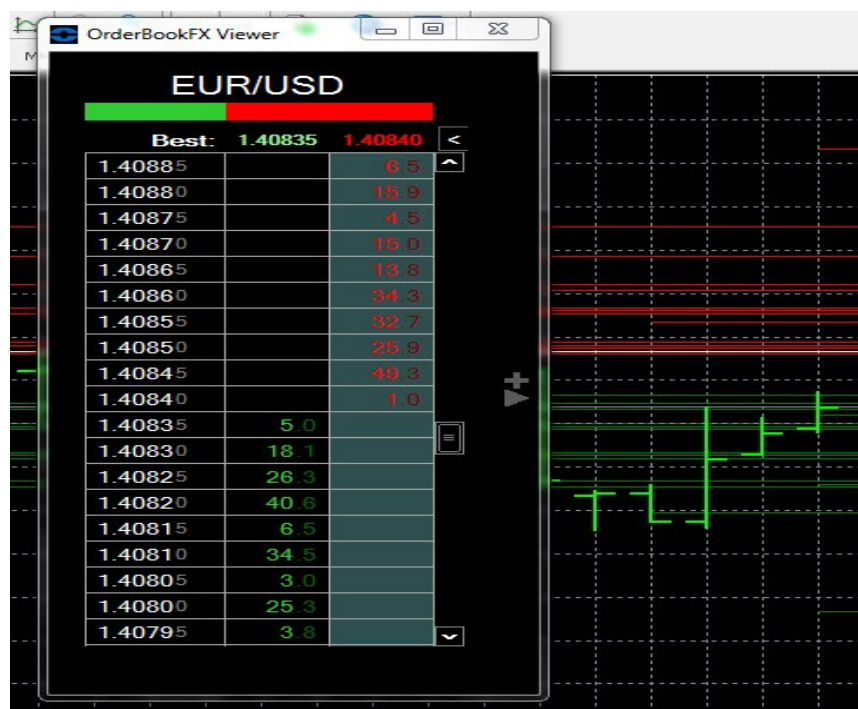
Alert.1 EURUSD pairing with significant bids (demonstrative of market makers buying expecting lower prices due to selling pressure on EBS).



Alert.2 Five minutes later, prices have drifted lower by 8 pips, and now offers are heavy, an illustration of market makers having already purchased expecting prices to move higher.



Alert.3 Is a continuation (from Alert.2) of market makers offers outweighing bids, as they have already purchased and are looking for prices to move higher.



Alert.4 Prices have moved higher and market makers have continued buying on EBS while hoping to exit their trades on other networks, here exhibited by continued offers outweighing bids.

Trading the News Releases

There is significant research that revolves around order flow dynamics as a whole. Very little of it provides us research based facts focused on price action between two networks. We have specifically identified here what we see as the most frequent observation within OrderBookFX and market direction itself.

Developmental Strategies

A. Prior to news releases, you will see orders stacked, and these orders will chase liquidity in a frenzied and volatile market. We tend to stay away from these points until after the initial liquidity shock has been dissolved some. However we see such a significant correlation to stacked orders and the resulting direction that we find a suitable strategy that 'waits' until the sentiment agrees with the direction of overall stacking. The waiting is complete after the initial liquidity shock and knee jerk reaction the market typically has.

B. A well suited strategy for using OrderBookFX is to manually trade on Bollinger Bands, watching the tops (resistance) and bottoms (support) form and the resulting market bias for rapid changes in swings of prices.

The following is an example of a March, 2011 News Release of Unemployment Claims. We have broken down actual market sentiment and provided for you a clear tracing of market activity.

Fig.01: Just before the unemployment report, we see a small price spike into a wave of selling. This selling is clear because the Market Makers have majority BID in the the OrderBookFX sentiment bar, which is calculated by aggregation of order volumes in the viewer as well. This selling pressure allows you to follow the institutions and know exactly what the smart money is doing. This image also shows the alert being triggered on the bids, which means for OrderBookFX users, there is significant selling pressure on the bids pushing prices lower. (I will show you how to adjust this alert level later on after we go through the rest of Fig. 01 – 11.



Fig.02: After the news release we see an immediate volatile drop in the pair, followed by a fast rebound, many buyers would jump in here, but market makers are net buyers as order flow from institutional sales pushed prices lower. The market makers stand to make their return by covering positions here. We show weakness here with market makers covering short positions.



Fig.03: Waves of selling have pushed prices lower and the alert is hit again on the BID side signifying a possible continuation through the current bid level.

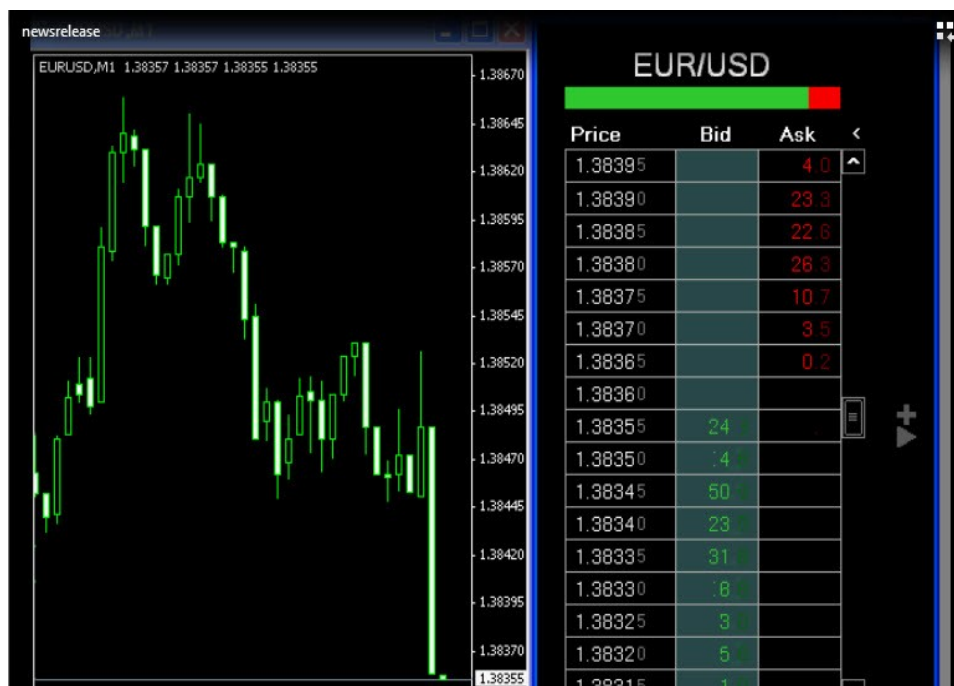


Fig.04: Figure 4 has smart money buying and market makers splitting off inventory in large offers. This shows clear price strength as institutions (Banks, Hedge Funds have purchased). Market sentiment to the higher.



Fig.05: Pressure is apparent, alerts hit on the offers identifying that market makers have purchased and are now ready to hold or offload their purchases waiting for higher prices.



Fig.06: Continued price strength. Alerts on the offered price signaled. Pressure to the higher.



Fig.07: After a fast 75 PIP spike, weakness in the spike is prevailing shown by buyers waiting for lower prices. Bid volumes increasing! Price drop possible?



Fig.08 A few pips lower and smart money has purchased and willing to lay off positions at higher prices.



Fig.09 Possible failure of continuation of price move as sellers have retreated. Sellers have sold, market makers starting to look for lower prices.



Technology Advancements

We have created OrderBookFX for you the trader in mind. We've taken much of the guess work out of engineering intelligent trading algorithms and never before has global liquidity been available for analysis. We are confident that OrderBookFX will level the field for all market participants. Our architecture is flexible, efficient, redundant and resilient. Our distribution servers are slated to span the globe and this will provide you the subscriber with further advancements to the data we provide.

We are diligently working on multiple indicators that when complete will be made available to all users of OrderBookFX at no cost. These indicators and statistical engines will provide a core set of tools for users of OrderBookFX data. If you have a suggestion please feel free to email support@blacklightdata.com or visit our forum at <http://forum.orderbookfx.com>

And with our business model and name in mind - we wish you great success and hope that we have put light to historical opacity and brought out the transparency that you the trader so deserve.

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