

Order Block Guide: How To Find And Trade Order Blocks

In the last few years, the concept of order blocks popularised by youtube trader ICT has exploded, with many wondering what they are and how to use them when trading.

In short: **order blocks are simply supply and demand zones, just a different type.**

However, compared to normal zones, they have a MUCH higher probability of causing a reversal. They also form in a slightly different way; rather than develop from the usual two or three candle base, they ONLY form from a tight range consolidation - making them a lot rarer than typical S & D zones.

Since order blocks are a foreign concept to most traders, in this post, I'm going to give you a complete rundown of what they are, how to identify them on a chart, and how to use them in your trading.

By the end, order blocks will be a great setup you can add to your trading arsenal.

So, let's look at what order blocks are and how they form...

What Are Order Blocks And How Do They Form?

An order block is a special type of supply and demand zone that forms when a block order - which is where they get their name - comes into the market from the banks buying or selling.

If you know anything about order flow trading, you've probably heard about block orders before.

These are special orders to buy or sell the banks often use to place trades with - and take profits and close trades. When the banks have a large position to place, they don't want to upset price - the position could trigger a big move and execute their trades at worse prices, resulting in lower profits.

To avoid this, they use block orders to split their positions up and get them placed in smaller, more manageable blocks.

Here's how it works:

Let's say a JP Morgan wants to buy 200 million worth of Eur/Usd, but only 50 million is being sold.

Obviously, JP Morgan can't place this order; not enough people are selling. If they buy now, when only 50 million is being sold, only part of their position (50 million) will get executed... the remaining 150 million will get filled at ever-increasing prices - lowering their overall profit and causing them a big headache.

So, they decide to use a block order to break the position up and get it placed in a more manageable way.

By breaking their position up - let's say into 20 million chunks - they can place it without upsetting the price too much.

For example, their first 20 million order would get matched with the 50 million being sold. That wouldn't cause a sudden up-move - upsetting price - because the sell orders are still bigger than the buy orders - 20 million vs 50 million. They can then wait for the orders to pick up again before entering their next chunk.

That process - of placing one 20 million order, then another, and another, etc - results in a supply or demand zone forming, specifically, a zone from a tight range consolidation.



Here's what your typical order-block zone looks like - *seen these before?*

Notice the zone forms when price shoots away from a tight range consolidation - a consolidation contained within a small price range?

Because of how they work, order-block creates these consolidations.

The banks use order-blocks when they want to place a big position without upsetting the price. They do that by placing a bunch of small positions around similar prices; that way they achieve the same effect of placing a single large position without actually placing one into the market.

The banks placing a bunch of similar positions around similar prices causes a tight range consolidation to form; each position creates a high (or low if they're shorting) of the consolidation.

So, before we move on, here's a quick summary of order blocks:

Order blocks are supply and demand zones but of a different type.

They form from the banks buying or selling using a block order, which splits a big position (e.g a trade) into a bunch of smaller positions that makes it easier for the banks to buy/sell without upsetting the price.

The zones themselves are structurally identical to normal supply and demand zones. However, they ONLY form when price moves away from a tight range consolidation that acts as a base. That's because using a block order to enter a big position means placing smaller positions at similar prices, creating a consolidation with a small range.

How Order Blocks Are Different To Normal Supply And Demand Zones

Now that we know order blocks are supply and demand zones - just a different type - the question is, how do they differ from the normal zones we see form all the time?

Really, there are two key differences...

First, order blocks have a much higher probability of resulting in a reversal than normal supply and demand zones.

And that's regardless of where or when they form i.e if they appear after a long rise or decline - which increases the probability of normal zones resulting in a reversal.

The reason why is because the zones are created from the banks buying or selling using a block order, which they only use when they have an especially large position to place. If they're placing a big position, the banks obviously don't want price to break beyond the point they bought or sold - the S or D zone.

Therefore, the zone has a high probability of causing a reversal because the banks wouldn't place a big position unless they were very confident price was heading in the direction they want.

The other difference is how order block zones look.

In general, order blocks look identical to normal supply and demand zones - they form from a sharp rise or decline away from a base like all zones do.

However, the base is ALWAYS a tight range consolidation, like you see below.



Unlike normal zones that form from a reversal - which you can also see above - order blocks are always created from price moving away from a tight range consolidation. Because that's the structure that forms when the banks use a block order to place their positions into the market.

With a block order, each position gets entered at a similar price, resulting in the highs (or lows in this case) of the consolidation forming at relatively equal prices to one another.

On a chart, that creates a tight range consolidation, like as you see above.

So when it comes to identifying order block zones, all you need to do is look for a small tight range consolidation. They only form from the banks using block orders, meaning a zone MUST exist at the source.

How To Find And Use Order Blocks In Your Trading

The best way to use order-blocks is as a high probability setup to look out for alongside your main trading strategy.

Order block zones don't form often; you can't really use them as a single strategy.

If you use them as a setup, however, they can provide you with high probability trade signals you can use to generate additional profit alongside your core trading strategy. That's how I use them in my trading. Supply and demand is my core strategy, which gives me most of my trades, then I have two or three setups I lookout for alongside...

Order blocks, pin bars, and the reversal pattern in my book.

They allow me to make more money, while at the same time, lower my overall risk due to the diversification they provide to my main trading strategy.

So, how do you find and use order blocks in your trading?

Since order blocks are essentially supply and demand zones - just a much rarer type - the way you trade the zones is the same as how you trade them normally:



You mark a zone on the chart...



Wait for price to enter and provide some sort of confirmation signal - pin bar, engulfing candle, large range candle.



And then place a stop on the other side of the zone and see if price moves away.

Simple.

Finding the zones is a little more difficult, but still simple with a bit of practice.

The key thing to remember is to look for a zone that forms from a consolidation created by a tight range, i.e., price rising and falling between two close prices. These consolidations ONLY form from the banks placing a block order, so an order block must exist at the source and create a supply or demand zone.

Let's go through some examples...



So, here's what your typical order-block zone looks like.

This demand zone forms from a sharp move away from a tight range consolidation. Price moves back and forth between 1.21600 and 1.22000 before breaking higher, forming the order block.

Pay attention to what this consolidation looks like, how tight it is.

It's not your typical consolidation where price makes big swings up and down with each ending at different prices. Instead, the swings are small and terminate roughly at the same points, leading to price being contained within this really tight range that looks almost like a rectangle.

These are the sorts of consolidation you need to look for to find order blocks.



Here's another one, this time from the 15 minute chart.

Again, look at the consolidation... it's a small, tight, and forms almost a rectangle shape. We know these only form from the banks using a block order, so an order block zone must exist at the source.



In rare cases, the consolidation will form after a move rather than at a swing low or high.

When you see this, draw the order block zone from the most recent swing low/high up to the consolidation. That'll make it a valid zone. This happens when the banks place a position, creating the initial move - a rise in our case, which itself is a demand zone - then use a block order to place the remaining positions at a slightly higher price.

Summary

Well, I hope this post has cleared up some of the confusion behind order blocks.

As I said, they make a great setup to watch for alongside your core strategy, that's how I use them. And since they have a much high probability of causing a reversal than normal supply and demand zones, you can trade them at a slightly higher size as well - neat, huh?

Don't forget to check out my [supply and demand guide](#) if you want a more detailed breakdown of how to trade to order blocks and supply and demand zones.