Internal Range Liquidity vs. External Range Liquidity

A visual reference guide to liquidity theory in price-action / smart-money market structure

This guide explains two core liquidity concepts used in modern price-action and "smart money" market-structure analysis: **Internal Range Liquidity (IRL)** and **External Range Liquidity (ERL)**. It is written as reference material for group study and discussion.

> **Educational purpose only.** This document explains a market-structure framework used by some discretionary traders. It is conceptual and illustrative — the charts are synthetic, not real market data — and nothing here is financial advice or a recommendation to buy or sell any instrument. Markets involve real risk of loss; always do independent research and consider consulting a licensed financial advisor.

Contents

1. The Big Idea: Liquidity Drives Price
2. External Range Liquidity (ERL) — the boundaries
3. Internal Range Liquidity (IRL) — what's inside
4. The Dealing Range: how IRL and ERL fit together
5. The Price-Delivery Cycle: from IRL to a draw on ERL
6. Side-by-Side Comparison
7. Reading a Chart: a practical checklist
8. Glossary of Terms

1. The Big Idea: Liquidity Drives Price

In this framework, price is thought of as constantly moving toward pools of resting orders — called **liquidity** — rather than moving randomly. Two broad liquidity concepts describe *where* that resting liquidity sits relative to the current trading range:

External Range Liquidity (ERL)	Liquidity resting **outside** the current range — above old swing highs and below old swing lows. It marks the boundaries of the range.
Internal Range Liquidity (IRL)	Liquidity and price inefficiencies resting **inside** the current range — gaps, imbalances and unmitigated order flow left behind as price moved quickly.

The core idea traders in this framework use: price tends to first rebalance/mitigate nearby **internal** liquidity, and then continues toward the nearest meaningful pool of **external** liquidity — a move often called a **"draw on liquidity."**

2. External Range Liquidity (ERL)

External Range Liquidity sits **beyond the edges** of the current dealing range. It is made up of stop-loss and pending orders that accumulate above old highs and below old lows as the market repeatedly fails to break them.

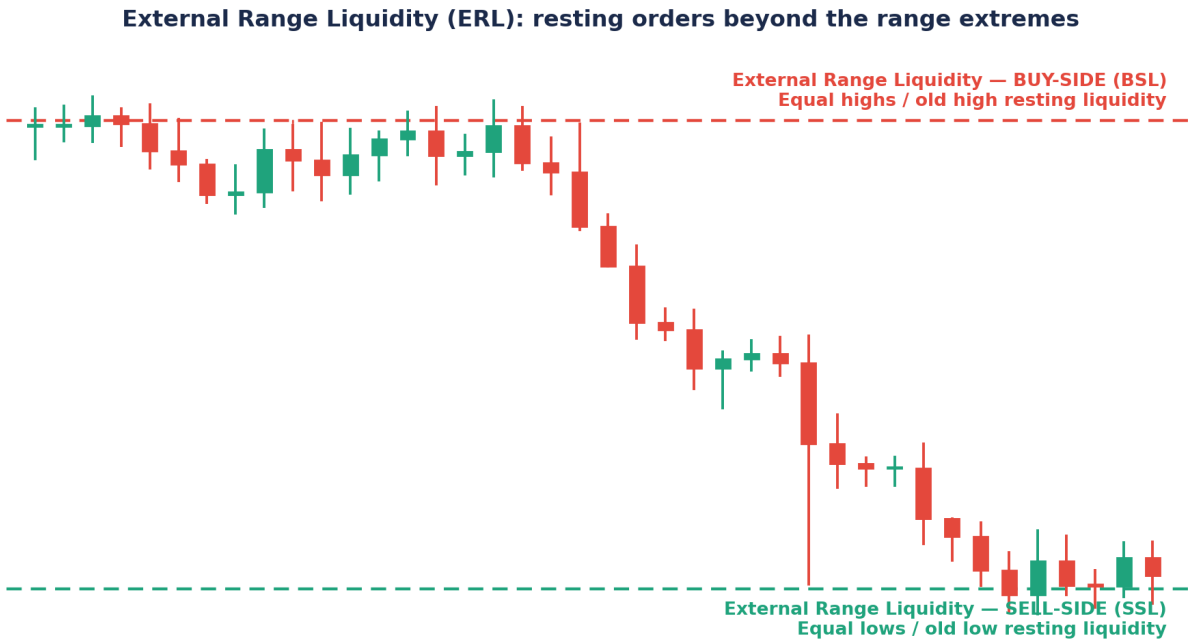


Figure 1 — Buy-side liquidity (BSL) rests above equal/old highs; sell-side liquidity (SSL) rests below equal/old lows. These are the two flavors of External Range Liquidity.

Common forms of External Range Liquidity

- **Buy-side liquidity (BSL):** resting buy-stop and breakout orders sitting above prior swing highs or equal highs.
- **Sell-side liquidity (SSL):** resting sell-stop and breakdown orders sitting below prior swing lows or equal lows.
- **Equal highs / equal lows:** two or more highs (or lows) at a similar price form an obvious, easy-to-see level — which tends to attract a disproportionate number of stops.
- **Trendline liquidity:** stops that accumulate just beyond an obvious, widely-watched trendline connecting swing points.
- **Old session/day/week highs and lows:** previous day's high (PDH), previous day's low (PDL), and similar reference levels that many participants watch.

Because ERL sits at obvious, widely-watched levels, it is often where a range's extremes get swept before price reverses — sometimes referred to as a **"liquidity grab"** or **"stop hunt."**

3. Internal Range Liquidity (IRL)

Internal Range Liquidity is everything left **inside** the range — the inefficiencies and unfinished business created when price moved fast in one direction and didn't trade both sides of every price level.

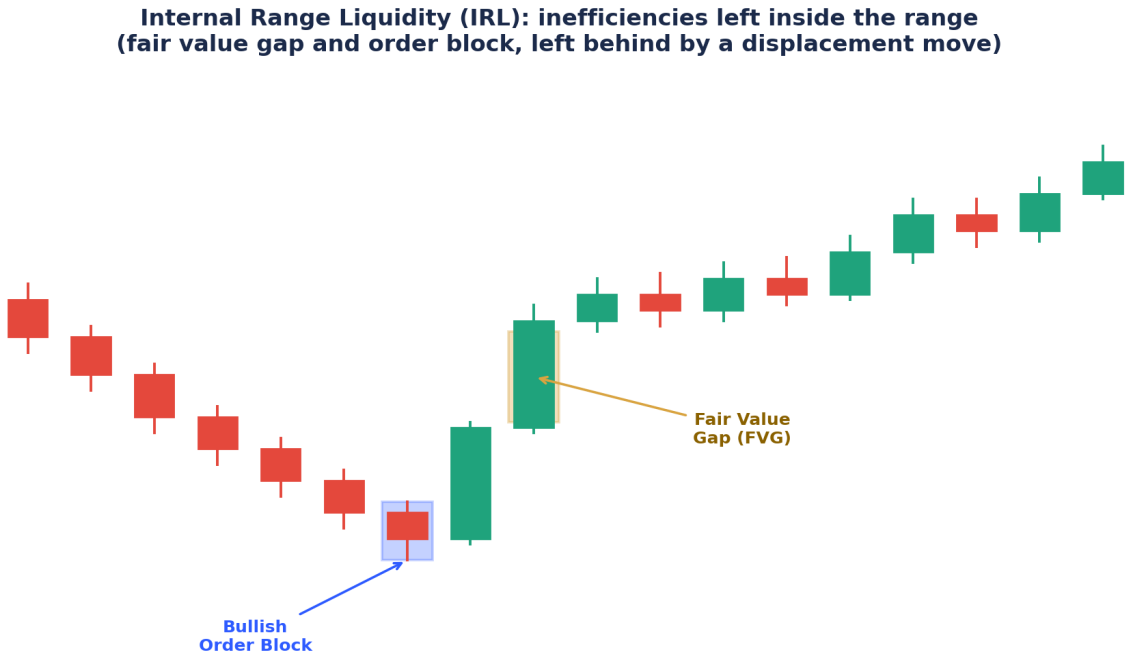


Figure 2 — A fair value gap (FVG) marks a three-candle imbalance left behind by a fast move; an order block marks the last opposing candle before that move. Both are common IRL reference points.

Common forms of Internal Range Liquidity

- **Fair value gaps (FVGs) / imbalances:** a three-candle pattern where the wick of candle 1 and the wick of candle 3 don't overlap, leaving a price "gap" that was never traded.
- **Order blocks:** the last opposing candle before a strong, displacing move — thought to mark where large orders were placed.
- **Breaker blocks:** a former order block that failed and was traded through, which can flip from support to resistance (or vice-versa).
- **Mitigation blocks:** a small pocket of unfilled orders left behind after a failed move, often revisited before the range continues.
- **Rebalancing / inefficiency fills:** price returning to "smooth out" a gap without necessarily reversing the broader trend.

> IRL levels tend to be revisited before ERL is reached — many traders treat an unmitigated FVG or order block as a magnet that "pulls" price back before the broader move continues.

4. The Dealing Range: How IRL and ERL Fit Together

Put together, a "dealing range" is simply the price territory between the most recent significant high and low. **ERL defines the top and bottom boundary** of that range, while **IRL is distributed throughout the inside** of it.

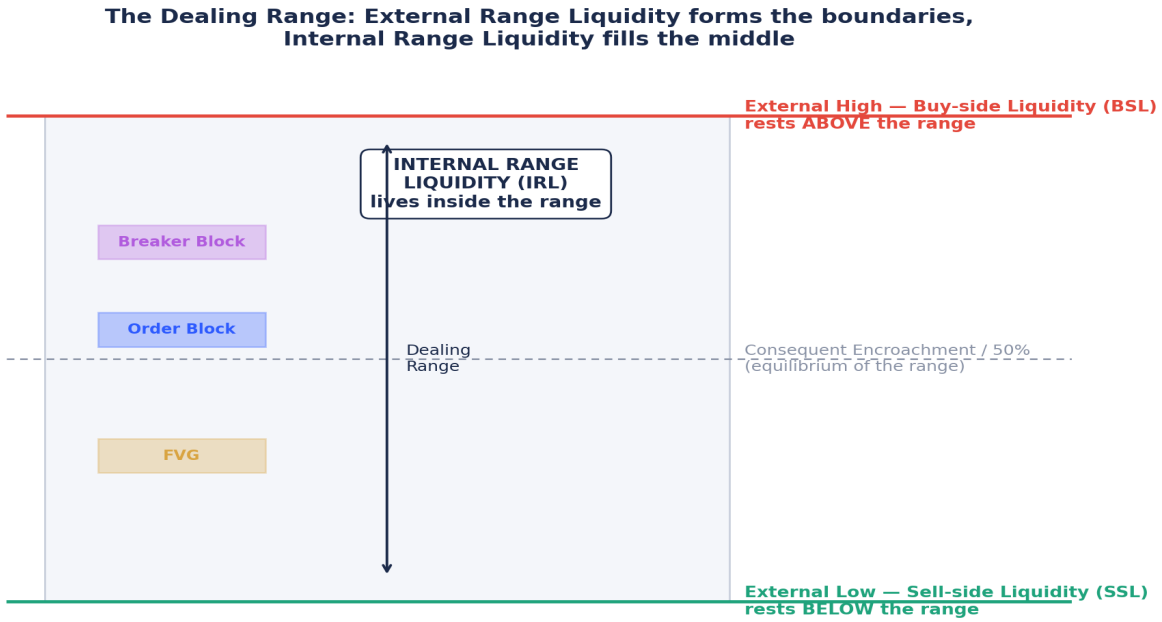


Figure 3 — The dealing range: External Range Liquidity forms the ceiling (BSL) and floor (SSL); Internal Range Liquidity — FVGs, order blocks, breaker blocks — populates the space between them.

The midpoint of the range (its 50%, sometimes called "consequent encroachment" or equilibrium) is a common reference traders use to judge whether price is currently trading at a "premium" (upper half, favoring shorts toward SSL) or a "discount" (lower half, favoring longs toward BSL).

5. The Price-Delivery Cycle: From IRL to a Draw on ERL

A common way this framework describes price movement is as a repeating cycle: price reacts to internal liquidity on its way toward external liquidity, then, once external liquidity is taken, a new range forms and the cycle repeats in the opposite direction.

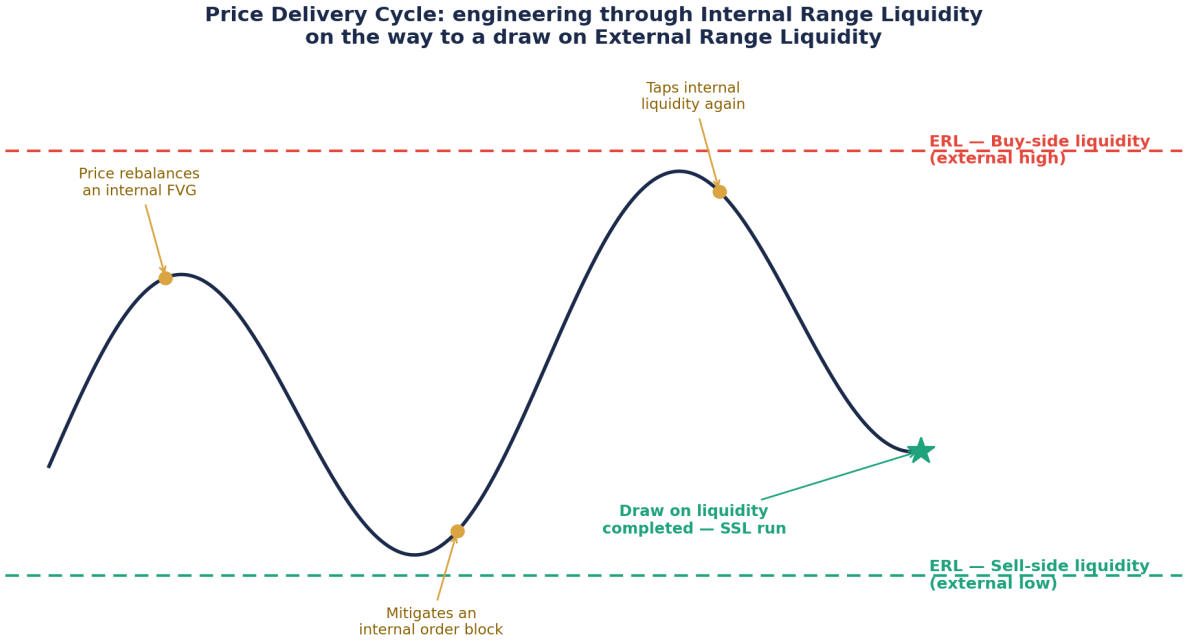


Figure 4 — Price engineers through internal reference points (rebalancing an FVG, mitigating an order block) en route to a draw on external liquidity, where the cycle then resets.

A simplified sequence often described:

1. A range is established, defined by a recent high (ERL/BSL) and low (ERL/SSL).
2. A fast, displacing move leaves internal inefficiencies (FVGs, order blocks) behind — this is IRL.
3. Price often retraces to rebalance or mitigate that IRL before continuing.
4. Price then "draws" toward the nearest un-taken external liquidity pool (old high or old low).
5. Once that ERL is swept, the range resets and new internal liquidity begins forming for the next leg.

6. Side-by-Side Comparison

Attribute	External Range Liquidity (ERL)	Internal Range Liquidity (IRL)
Location	Outside the current range (above highs / below lows)	Inside the current range
Made of	Resting stop-loss & breakout orders	Price inefficiencies: FVGs, order blocks, breaker blocks
Typical markers	Equal highs/lows, old day/week highs & lows, trendlines	3-candle gaps, last opposing candle before displacement
Role in the cycle	The eventual target / destination of a directional move	Waypoints price often revisits before reaching the target
Common term	"Liquidity pool", "stop hunt", "liquidity grab"	"Rebalance", "mitigation", "fill the gap"
Visual cue	A flat, repeated price level (equal highs/lows)	A gap or single candle left behind by a fast move

In short: **ERL is the destination, IRL is the terrain price crosses to get there.** Both are necessary parts of the same map — external liquidity explains *where* price is likely headed, internal liquidity helps explain *how* it gets there.

7. Reading a Chart: A Practical Checklist

A simple walk-through some traders use when applying this framework to a chart:

1. Mark the range. Identify the most recent significant swing high and swing low — this is your ERL boundary.

2. Scan for equal highs/lows. These stand out as the most obvious external liquidity pools.

3. Find unmitigated FVGs and order blocks inside the range. These are your internal liquidity reference points.

4. Note the 50% / equilibrium level. Judge whether current price is trading at a premium or discount.

5. Ask which internal level price is likely to revisit first before continuing toward external liquidity.

6. Ask which external pool (BSL or SSL) is the more likely draw given recent structure and momentum.

7. Reassess after any liquidity sweep. Once ERL is taken, treat it as the start of a new range and repeat the process.

> This checklist describes a way of *reading* a chart, not a trading system with guaranteed outcomes. Liquidity concepts are probabilistic tools, not certainties — always pair them with your own risk management.

8. Glossary of Terms

Liquidity — Resting orders (stop-losses, pending entries) clustered at a price level that, if triggered, can accelerate price movement.

External Range Liquidity (ERL) — Liquidity pools sitting outside/beyond the current dealing range.

Internal Range Liquidity (IRL) — Inefficiencies and unmitigated order flow sitting inside the current dealing range.

Buy-side liquidity (BSL) — Resting buy orders/stops above a high or cluster of equal highs.

Sell-side liquidity (SSL) — Resting sell orders/stops below a low or cluster of equal lows.

Fair value gap (FVG) — A three-candle imbalance where the 1st candle's wick and 3rd candle's wick don't overlap, leaving an untraded price gap.

Order block — The last opposing candle before a strong displacement move, viewed as a footprint of large-order activity.

Breaker block — A former order block that price has broken through and which can flip role (support becomes resistance or vice versa).

Draw on liquidity — The liquidity pool price is currently expected to be headed toward.

Liquidity sweep / grab / stop hunt — A move that pushes price just beyond a liquidity pool to trigger resting orders, often followed by a reversal.

Equilibrium / 50% / consequent encroachment — The midpoint of a dealing range, used to judge premium vs. discount pricing.

Premium / discount — Trading in the upper half (premium) or lower half (discount) of a range relative to its equilibrium.

Prepared as a group study reference. Diagrams are illustrative and generated for teaching purposes; they do not represent real market data or a signal to trade.