

Guide to Using Market Depth Data

What is Market Depth (Level 2 Market Data)?

Market Depth (MD), also known as Level 2 Market Data displays the number of Buy orders and Sell orders of each price level of a particular listed security (eg. stocks or ETFs), up to 20 levels of pending orders on each Buy and Sell side. In simple terms, it shows the different price levels which buyers are willing to buy and sellers willing to sell at any given time where buyers are represented on the left and sellers represented on the right in the order book. MD is in real time and the orders shown changes constantly during pre-open session to market close.

MD information is available on all trading platforms upon subscription with your broker and it allows investors and traders to enhance trading decisions by checking stock liquidity, optimising buy / sell orders, and establishing price support / resistance.

1. Checking Liquidity

MD provides investors with an in-depth view to the stock's trading activity and whole liquidity picture of a stock.

With MD, investors are able to avoid illiquid stocks which often create additional cost, as they may need to buy at a higher price to fulfil its entire buy order or sell at a lower price to fulfil its entire sell order. Such illiquid stocks are also exposed to high volatility when large orders are being traded.

Using Table 1.1, you will notice that due to the lack of ready buyers, a sale of 10,000 shares, worth approximately only S\$40,000 would cause the share price to fall by 4% from S\$3.94 to \$3.78.

Investors can look out for more liquid stocks using market depth. Liquid stocks illustrated in Table 1.2 offers better price execution as there are ample buyers and sellers to fill the orders. Liquid stocks also offer less volatility caused by large order transactions.

Last	Chng	Vol	High	Low
3.940	+0.040	9.9	3.960	3.940
Bid	Bid Vol	Ask	Ask Vol	
3.910	0.3	3.950	4	
3.860	7.7	3.960	5	
3.800	0.5	3.970	4	
3.790	0.5	3.980	4.3	
3.780	6	3.990	7	
3.660	10	4.000	3.1	
--	--	4.020	3	
--	--	4.030	1	
--	--	4.040	2	
--	--	4.050	1	
--	--	4.060	5	
--	--	4.100	7	
--	--	4.160	4	
--	--	4.260	5	
--	--	4.330	0.3	
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Illustration of an Illiquid Stock

Table 1.1

Last	Chng	Vol	High	Low
3.640	-0.020	1,615.7	3.650	3.610
Bid	Bid Vol	Ask	Ask Vol	
3.640	177.4	3.650	336.3	
3.630	457	3.660	581.2	
3.620	428.8	3.670	716.7	
3.610	468.9	3.680	653.1	
3.600	584	3.690	399.7	
3.590	428.7	3.700	566.7	
3.580	348.1	3.710	313	
3.570	591.6	3.720	380	
3.560	352.5	3.730	407.4	
3.550	369.7	3.740	371.2	
3.540	314.1	3.750	529.2	
3.530	503	3.760	318	
3.520	350.8	3.770	346	
3.510	347.7	3.780	363	
3.500	361.5	3.790	394.4	
3.490	304	3.800	934.8	
3.480	308.5	3.810	301	
3.470	319.4	3.820	12.9	
3.460	11.3	3.830	30.1	
3.450	19.7	3.840	0.5	
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Illustration of a liquid Stock

Table 1.2

2. Optimising Orders

With the help of MD information, either sellers or buyers who perceive current market price to be too low or high respectively can now place their orders away from the current market price and still get a reasonably good chance for the order to be filled.

This is possible as market depth allows investors to see where the large orders are, and allows them to place their orders ahead of the large orders.

Table 2 shows an example of using MD information to place a SELL order at S\$9.64, ahead of 2 large orders at S\$9.65 and S\$9.66; giving the investor an improved chance of filling the order at a better price.

Bid	Bid Vol	Ask	Ask Vol
9.600	31.9	9.610	6.5
9.590	95.6	9.620	61.7
9.580	33.5	9.630	60.4
9.570	29	9.640	72.2
9.560	30.4	9.650	107.6
9.550	18.9	9.660	123.4
9.540	1.3	9.670	81
9.530	6.3	9.680	89.1
9.520	17.7	9.690	79.9
9.510	5	9.700	241.1
9.500	14.2	9.710	17.3
9.490	14	9.720	22.3
9.480	5.8	9.730	9.7
9.470	61.6	9.740	9.6
9.460	64.1	9.750	171.4
9.450	32.5	9.760	21.6
9.440	7.1	9.770	29.5
9.430	39.2	9.780	115.2
9.420	8	9.790	1.2
9.410	3	9.800	225.2

Placing sell order ahead of Large orders

Large orders

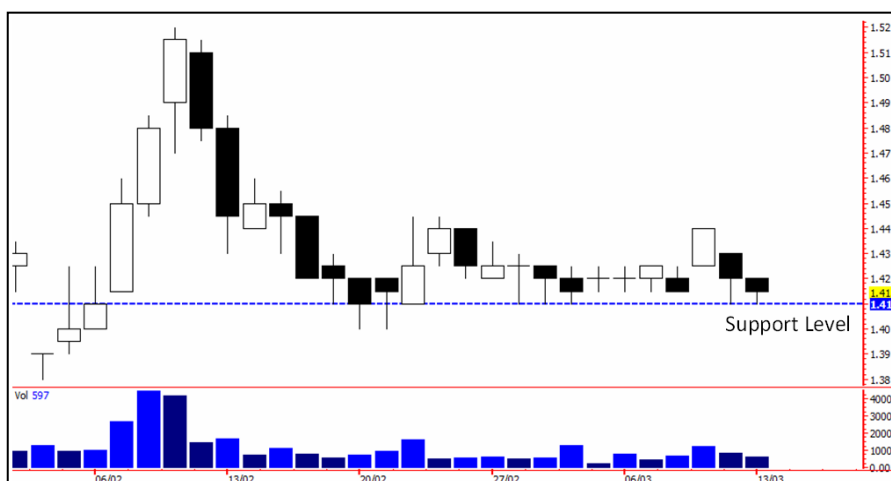
Table 2

3. Establishing Demand and Supply (Support and Resistance)

Market Depth allows Technical Analysis users to verify the support and resistance levels seen on their charts.

For instance, as price trades towards the support level, by cross-referencing with the MD; multiple levels of large buy queue will provide confidence that it is a valid support level. Similarly, multiple levels of large sell queue provide confidence on the establishment of a valid resistance level.

An example below shows the technical chart of a stock trading above its support level, at S\$1.410. The stock's market depth displayed similar claim with large number of ready buyers queuing at S\$1.410 to S\$1.380 levels. This provides the technical chart reader an additional verification that the stock's support has likely been established.



Last	Chng	Vol	High	Low
1.415	-0.005	634.7	1.420	1.410
Bid	Bid Vol	Ask	Ask Vol	
1.415	40.3	1.420	39.9	
1.410	128.7	1.425	62.8	
1.405	140.9	1.430	175	
1.400	349.1	1.435	81.9	
1.395	21.9	1.440	138.6	
1.390	54.4	1.445	25.2	
1.385	11.1	1.450	136	
1.380	154.5	1.455	20	
1.375	10	1.460	7	
1.370	47	1.470	3	
1.360	30	1.475	5	
1.350	40	1.480	30	
1.340	12.7	1.490	6	
1.335	10.9	1.495	26	
1.330	78	1.500	61	
1.325	22	1.510	5.9	
1.320	54.6	1.520	23.4	
1.315	0.9	1.535	3	
1.310	60	--	--	
1.305	60	--	--	

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