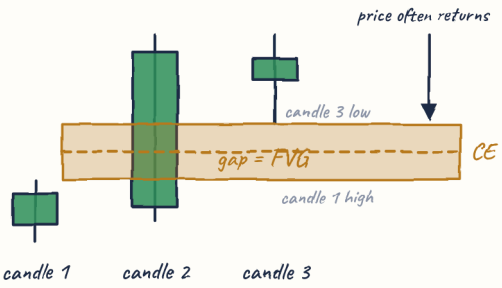
XAUUSD Global · study note

Fair value gap (FVG)

A fair value gap is a three-candle pattern where a strong middle candle leaves a gap between candle 1's wick and candle 3's wick.



Key points

- Bullish FVG: candle 1's high is below candle 3's low. Bearish FVG: candle 1's low is above candle 3's high.
- The gap marks a fast, one-sided move (displacement). Price often comes back into it, but not always.
- Consequent encroachment (CE) is the 50% level of the gap.
- Better gaps come from displacement that broke structure after a liquidity sweep, in the higher timeframe's direction.
- Gaps do not have to fill. Treating every fill as certain leads to trades against the trend.

How traders use it

1. Mark gaps that formed together with a break of structure.
2. Wait for price to come back into the gap, or to the CE, on your entry timeframe.
3. Stop beyond the swing that created the move, not just beyond the gap: gold often fills the whole gap first.

Watch out

✗ Marking every tiny gap on M1.

✗ Stops right at the edge of the gap.

✗ Ignoring the higher timeframe direction.

Key line: **Candle 1's wick to candle 3's wick is the gap. The CE is its 50% line.**