

Ichimoko Strategies for Forex Trading

Applying the Crosses



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About ActionForex.com

ActionForex.com was set up back in 2004 with the aim to provide insightful analysis to forex traders, serving the trading community over a decade. We started providing only a daily and a mid-day report, now known as [Action Insights](#). Gradually, we added a lot more in-house contents to the site. [Technical Outlook](#) section was expanded to cover more pairs. [Central Bank Views](#), [China Watch](#) and [Special Topics](#) are added to cover fundamental developments that affect the markets. In addition to that, [Top Movers](#), [Heat Map](#), [Pivot Point Charts](#) and [Pivot Meters](#), [Action Bias](#) and [Volatility Charts](#), are tools used by traders from all over the world.

“Empowering the individual traders” was, is, and will always be our motto going forward.

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I: Introduction

Ichimoku Kinko Hyo is a technical indicator invented and published by the Japanese for more than 30 years. It's a tool to measure momentum and project future support and resistance.

First of all, the Japanese word "Ichimoku" means "one glance", "Kinko" means "balance / equilibrium and "Hyo" means "chart", in short Ichimoku Kinko means to see the equilibrium at a glance. Basically, the indicator is best used to define market trend, support and resistance and finally generate buy/sell signals.

Ichimoku Kinko Hyo consists of 5 lines and a "Kumo" or known as "cloud" as most people call it. Whilst Ichimoku Kinko Hyo utilizes five separate lines, they shall not to be used independently but rather to use them together to form a comprehensive view of the price action in order to formulate trading strategies. After studying these indicators, one should be able to understand market sentiment, momentum and relative strength of a trend "at a glance".

By studying each of the five components that make up Ichimoku Kinko Hyo, one shall be able to have a clear perspective of the relative equilibrium of the market as these lines can reflect market force, the balance between buyers and sellers.

The five lines of Ichimoku Kinko Hyo are:

- Tenkan-Sen (Conversion Line)
- Kijun-Sen (Base Line)
- Senkou Span A
- Senkou Span B
- Chikou Span (Lagging Span)

For detailed explanation of them, please check out our ebook, "Ichimoku Analysis for Forex Beginners".

In this ebook, we'll discuss some advanced trading strategies, including Kijun-Sen cross, Senkou Span cross and Chikou Span cross signals.

We will also discuss where to put entry level, exit level and stop-loss. Then we will put recent real life examples to elaborate individual signal.

II: Kijun-Sen cross

We believe the Kijun-Sen cross trading strategy is one of the most reliable, even though the signal may normally come a little late. This strategy can be used in different time frame. However, its reliability will decrease in shorter time frames due to increase in volatility.

Let us first recap what Kijun-Sen is, which is also known as base line. It is calculated as:

(Highest High + Lowest Low) / 2, for the past y periods (Traditionally y=26)

Kijun-Sen got a similar formula as the Tenkan-Sen (y=9) but with a longer time frame, i.e. 26.

The Kijun-Sen cross signal comes in when price breaks above or below the Kijun-Sen. A buy signal is generated when price rises above the Kijun-Sen from below whilst a sell signal is generated when price crosses below the Kijun-Sen from above. According to different location of where the cross-over takes place, the signal can be classified in Strong, Neutral and Weak.

Strong signal:

- A strong buy signal occurs when a bullish cross-over takes place above the Ichimoku cloud;
- A strong sell signal occurs when a bearish cross-over takes place below the Ichimoku cloud.

Neutral signal:

- A neutral buy signal occurs when a bullish cross-over takes place within the Ichimoku cloud area;
- A neutral sell signal occurs when a bearish cross-over takes place within the Ichimoku cloud area.

Weak signal:

- A weak buy signal occurs when a bullish cross-over takes place below the Ichimoku cloud;
- A weak sell signal occurs when a bearish cross-over takes place above the Ichimoku cloud.



In the above chart, the first sell signal generated when price dropped below the Kijun-Sen. However, this cross-over occurred above the Kumo, suggesting the signal was only a relatively weak one. Price tested the lower Kumo and started to recover.

Thereafter price crossed below the Kijun-Sen for the second time, forming another sell signal which happened below the Ichimoku cloud, indicating a strong sell signal was formed, price tumbled all the way to a 2009 low of 1.3500.

On the rebound from 1.3500, price crossed above the Kijun-Sen and generated a buy signal, however, as this cross-over took place below the Kumo, it was treated as a weak buy signal. The rebound faltered right at the Ichimoku cloud top and price started a 2 years long consolidation.

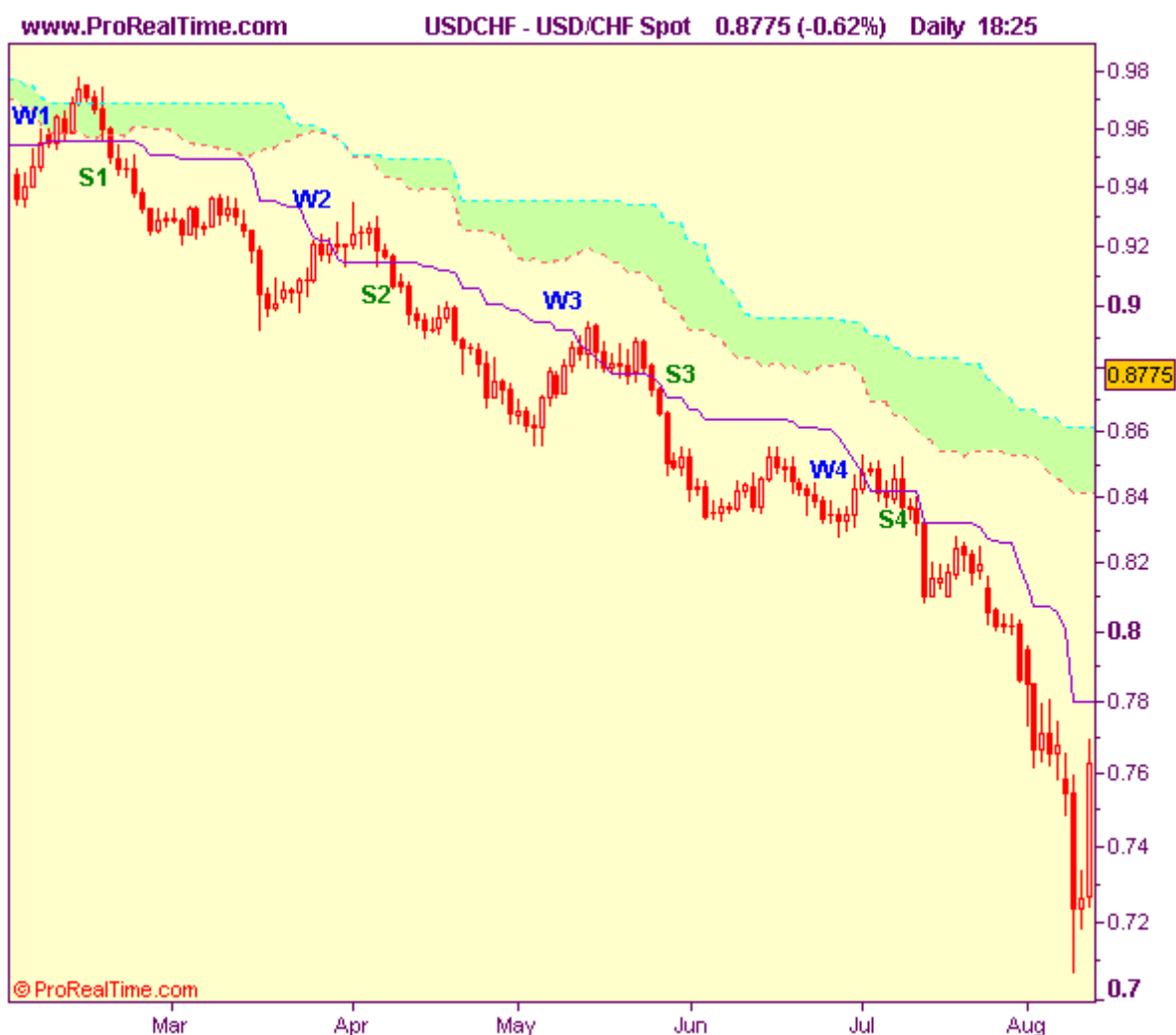
In this sideways period, several buy and sell signals were generated which mostly happened within the Ichimoku cloud area, suggesting they were all neutral strength buy/sell signals.



In the above chart of GBP/JPY, the first sell signal generated on the far left was a strong sell signal as the cross-over took place well below the Ichimoku cloud. Price then fell sharply from around 200.00 to as low as 118.85 (over 8000 points decline) before rebounding.

A buy signal was formed thereafter on the bounce from 118.85. However, as price broke above Kijun-Sen well below the Ichimoku cloud, it should be treated as a weak signal.

Price then dropped again after faltering below the upper Kumo and a sell signal was formed as price dropped below the Kijun-Sen. This cross-over happened within the Ichimoku cloud area, indicating it was a medium strength or neutral strength sell signal. No sharp decline followed but price still fell steadily for rest of 2010.



The above USD/CHF chart showed a major downtrend. As marked by W1, W2, W3 and W4, price rose above the Kijun-Sen and supposedly generated several buy signals. However, as all these so-called buy signals were formed below the Ichimoku cloud, they should be treated as weak buy signals only.

On the other hand, series of sell signals were generated, marked by S1, S2, S3 and S4, with price dropped below the Kijun-Sen. As these cross-over happened below the Kumo, there were all strong sell signals. And as you can see, the results of these sell signals were quite significant. (620 points after S1, 590 points after S2, 495 points after S3 and hefty 1330 after S4)

In Kijun-Sen cross strategy, the entry, exit and stop are set as follows:

Entry: In the middle of the bar, after seeing the Kijun-Sen cross (either bullish cross-over or bearish cross-over), one should get ready to place the order. Once the bar closes above the Kijun-Sen (for buy signal) or below the Kijun-Sen (for sell signal), this would confirm the signal and one can just enter the market at this point.

Exit: One should exit their position whenever the price closes back in the opposite direction of the trade. For example, if a short position was entered on a bearish cross-over of the price below the Kijun-Sen, one should get out when the price rises back above the Kijun-Sen and closes the bar there. This could also be used as a profit protection measure.

Stop-loss: Once the signal is confirmed, price should not cross back to the Kijun-Sen in the opposite direction. So one can simply place the stops 10-20 points above the Kijun-Sen for a short position, or 10-20 points below the Kijun-Sen for a long position. The set up of this 10-20 points buffer depends on the volatility and traders' own judgment.

Profit target: As Kijun-Sen is a trending indicator, it is not possible to set profit target solely by the Kijun-Sen. One should apply other projection technique or oscillators to help setting profit objectives. However, the Kijun-Sen can act as a very good tool in order to set a profit-protecting level as price should not touch back the Kijun-Sen if the trend is going to continue. Therefore, once the trending move unfolds, one can use the Kijun-Sen to set trailing stop in order to protect profit.

III: Senkou Span cross

First of all, let us recap on what is Senkou Span. There are Senkou Span A and Senkou Span B, which create the famous Ichimoku cloud area or Kumo. These two lines are derived from the Tenkan Sen and Kijun Sen;

The Senkou Span A is calculated as:

(Tenkan-Sen + Kijun-Sen) / 2, shifted forwards y periods (Traditionally y=26)

The line is basically the mid-point between the Tenkan Sen and Kijun Sen but being plotted 26 periods ahead.

The Senkou Span B is calculated as:

(Highest High + Lowest Low) / 2 for the past z periods, shifted forwards y periods (Traditionally y=26 and z=52)

Senkou Span B is always drawn alongside the Senkou Span A and is another component of the Ichimoku Kinko Hyo to create the Kumo / cloud. Senkou Span B represents a relatively longer term view of the market equilibrium in the charting system. Instead of calculating the past 26 periods of data, the Senkou Span B measures the average of the highest high price and lowest low price for the past 52 periods (2 months data on daily chart) but again shifts forwards by 26 periods. Due to the use of longer period of data, it is quite common to see the Senkou Span B moves relatively horizontally.

The Senkou Span cross signal is given when the Senkou Span A (the shorter variable line) crosses over the Senkou Span B (the long variable line). If the Senkou Span A crosses above the Senkou Span B from below, this is treated as a bullish signal. If the Senkou Span A crosses below the Senkou Span B from above, this would be a bearish signal.

Similar to other trading signal in Ichimoku Kinko Hyo system, the signals can be classified as strong, neutral and weak.

Strong signal:

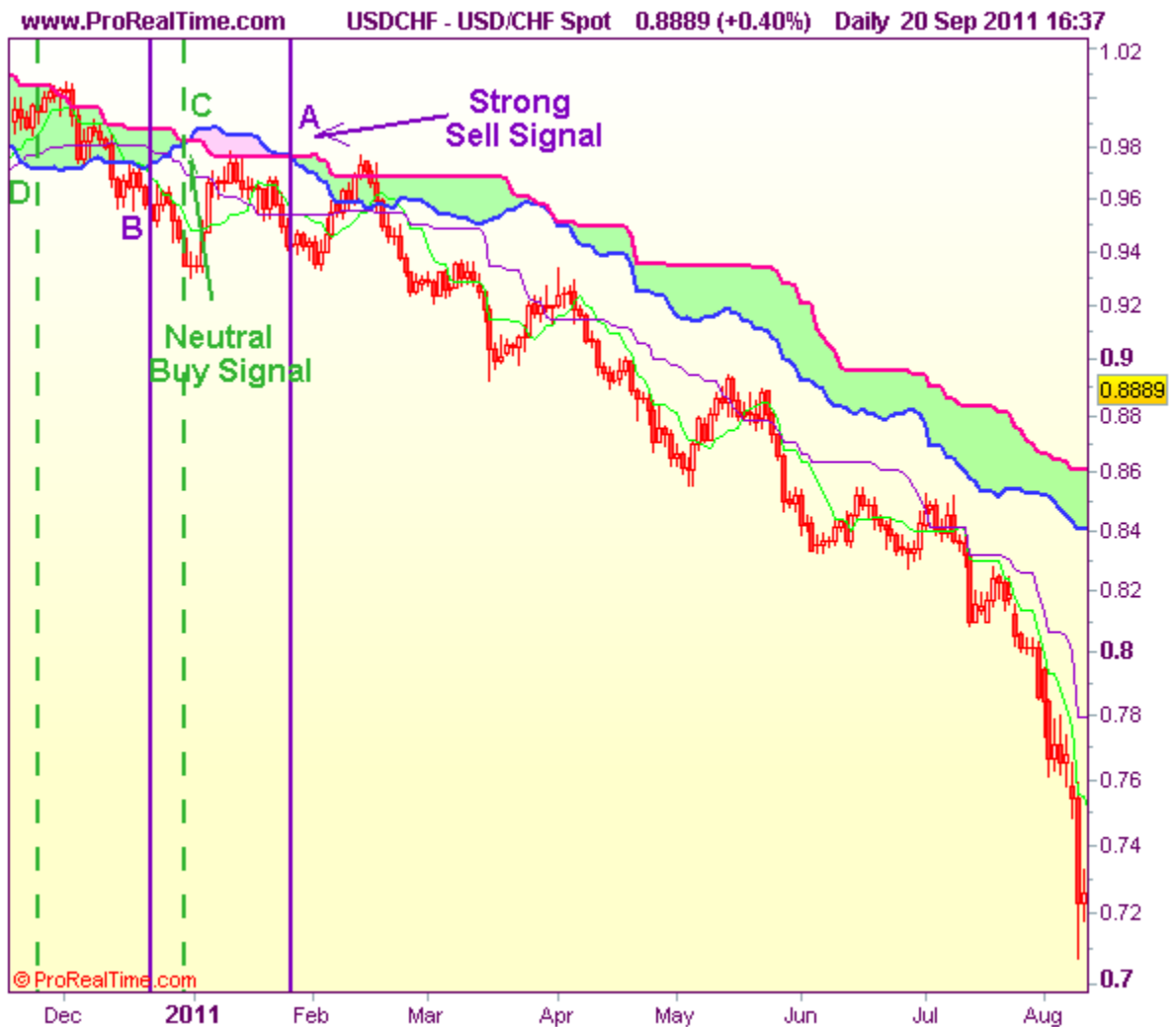
- A strong buy signal occurs when a bullish cross-over takes place below current price level, i.e. current price location matches with the signal direction.
- A strong sell signal occurs when a bearish cross-over takes place above current price level, i.e. current price location matches with the signal direction.

Neutral signal:

- A neutral signal, no matter is buy or sell, occurs when the cross-over takes place and current price level is locating within the Kumo area.

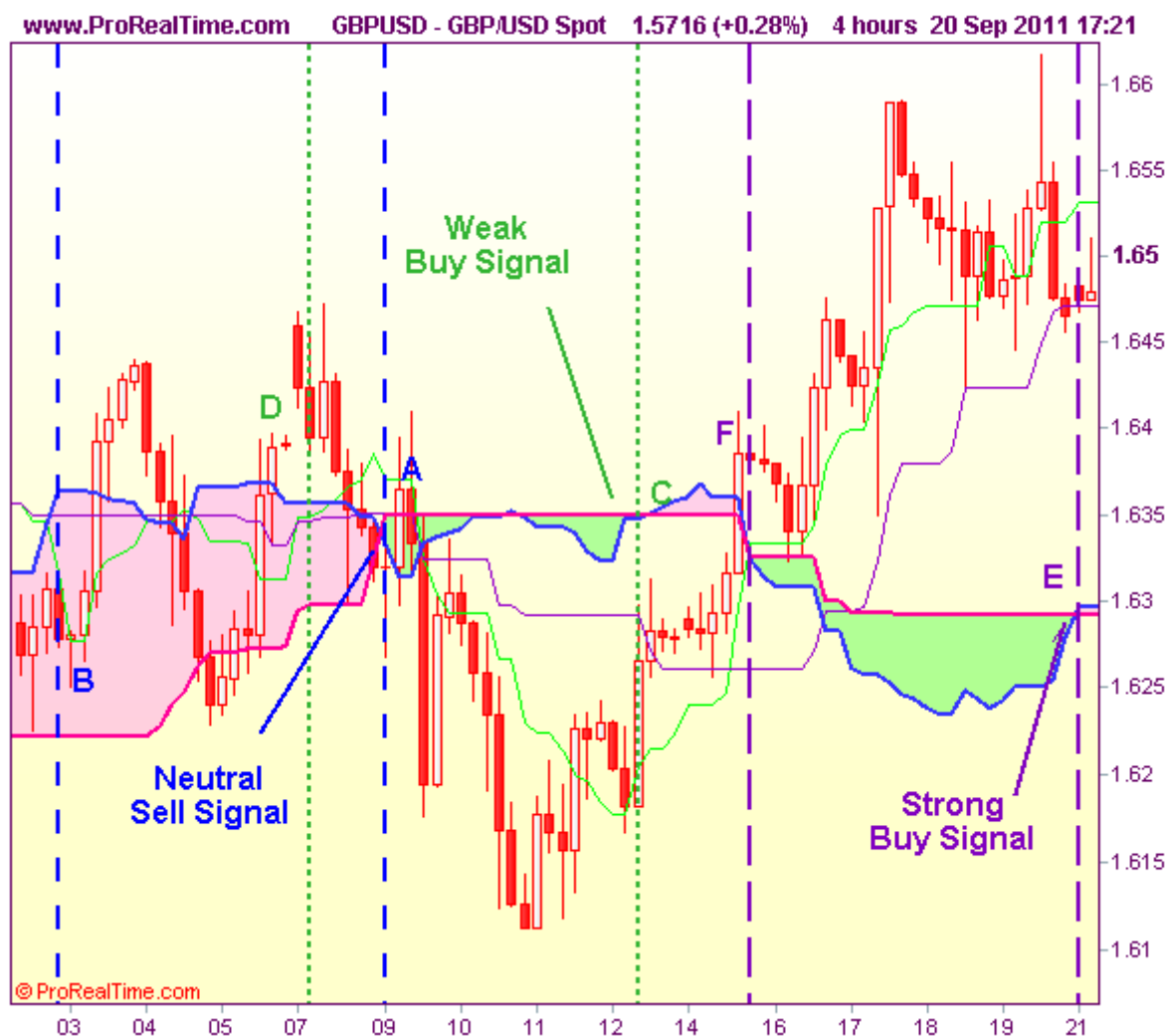
Weak signal:

- A weak buy signal occurs when a bullish cross-over takes place above the current price level, i.e. current price location is on the opposite side of the signal direction;
- A weak sell signal occurs when a bearish cross-over takes place below the current price level, i.e. current price location is on the opposite side of the signal direction.



In the above USD/CHF daily chart, the Senkou Span A crossed the Senkou Span B for the first time from bottom up at point C, providing a buy signal. However, at the corresponding price level at point D, the price was hovering within the Ichimoku cloud. This suggests the buy signal is only a neutral one and price only rose marginally higher before running into resistance at the Ichimoku cloud top and then retreated.

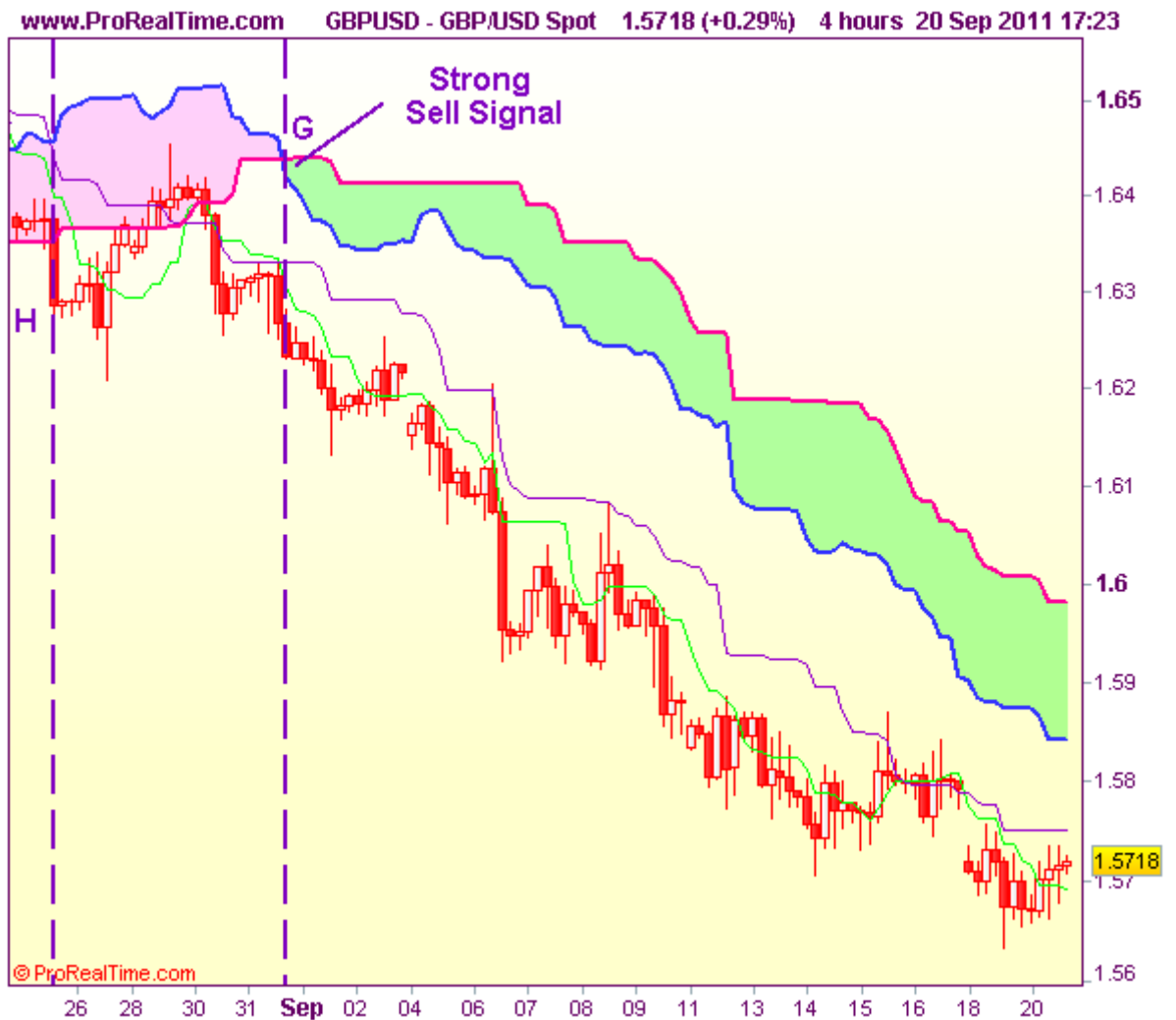
Then the Senkou Span A crossed the Senkou Span B again at point A but this time from top down, providing a sell signal. Unlike the previous one, the corresponding price level point B was below the point A, so this is a strong sell signal and price tumbled since from around 0.95 level all the way to record low of 0.7068.



Here is another example from GBP/USD 4 hour chart. The Senkou Span A first crossed below the Senkou Span B from above, provided a sell signal at point A . The corresponding price level at point B was within the Kumo area. So, this was only a neutral sell signal. Price then continued to gyrate since point B.

The Senkou Span A then crossed above the Senkou Span B from below, providing a buy signal at point C. However, as the corresponding price at point D was higher than point C, indicating this was only a weak buy signal. Price only rose marginally higher and then fell quite sharply from there down to low 1.61 level.

On the right hand side, the Senkou Span A crossed above the Senkou Span B from below at point E and as the corresponding price at point F was higher than the point E, suggesting this buy signal was a strong one. Price did rally from point F to as high as 1.6618 before retreating.



Conituning with the GBP/USD 4H Chart. Price then turned lower from 1.6618 and at point G, Senkou Span A crossed below Senkou Span B from above. The corresponding price level at point H was clearly below the cross-over point G. Thus, a strong sell signal was given. GBP/USD tumbled from around 1.6300 all the way down to 1.56 level.

For Senkou Span cross strategy, here are some guidelines on setting entry, exit, stop-loss and profit target levels.

Entry: The entry is relatively simple as once the cross-over is confirmed with a closing price on that particular time frame, one can just enter at the market level. Having said that, it is more important to filter out those signals are not in line with the major direction, one should refer to a higher time frame chart to identify the major trend first.

Exit: The exit point in Senkou Span cross signal comes in when the Senkou Span crosses in the opposite direction, however, one can refer to the Tenkan-Sen or Kijun-Sen in order to have an earlier sign.

Stop-loss: In general, the stop-loss should be placed on the opposite side of the Ichimoku cloud, i.e. stop-loss for a sell signal should put the stop above upper Kumo and vice versa. If the Kumo is too close, then one can put a 10-20 points buffer.

Profit target: Similar to the case of Kijun-Sen cross, one should use other projection technique or oscillators to help setting profit objectives.

IV: Chikou Span cross

As explained in our previous section introducing the Chikou Span, when Chikou Span crosses through the price curve, this could be used as a signal of a change in trend. Hence, if we look at it from another perspective, this cross can also be utilized as a signal generator. If the Chikou Span crosses above the price curve from below, this is a buy signal. When there is a cross of Chikou Span below the price curve from above, it is treated as a sell signal.

Once again according to the relative positions of the price and the Ichimoku cloud, these signals can be classified into strong, neutral and weak as follows:

Strong signal:

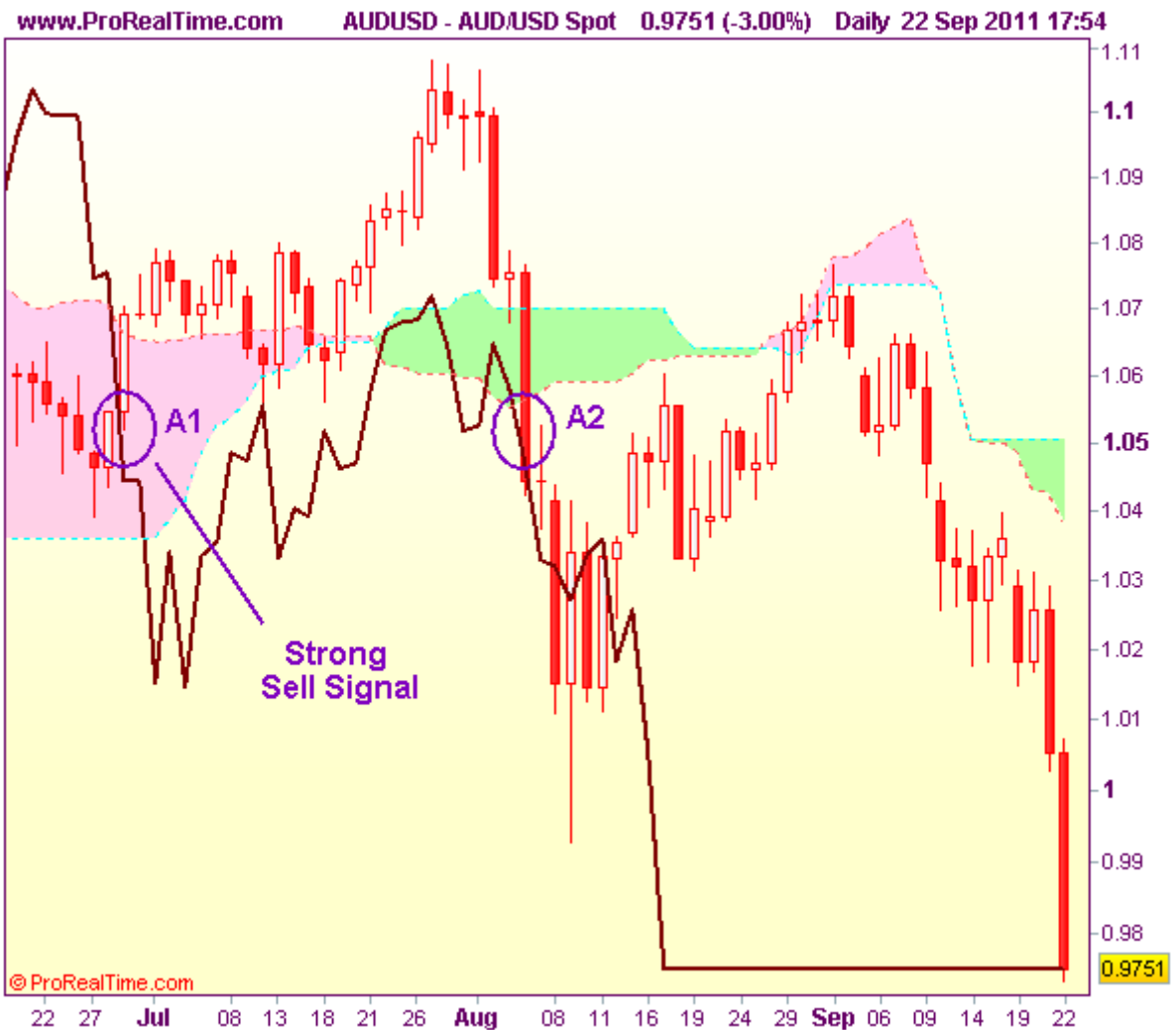
- A strong buy signal occurs when a bullish cross-over takes place where the current price is above the Ichimoku cloud;
- A strong sell signal occurs when a bearish cross-over takes place where the current price is below the Ichimoku cloud.

Neutral signal:

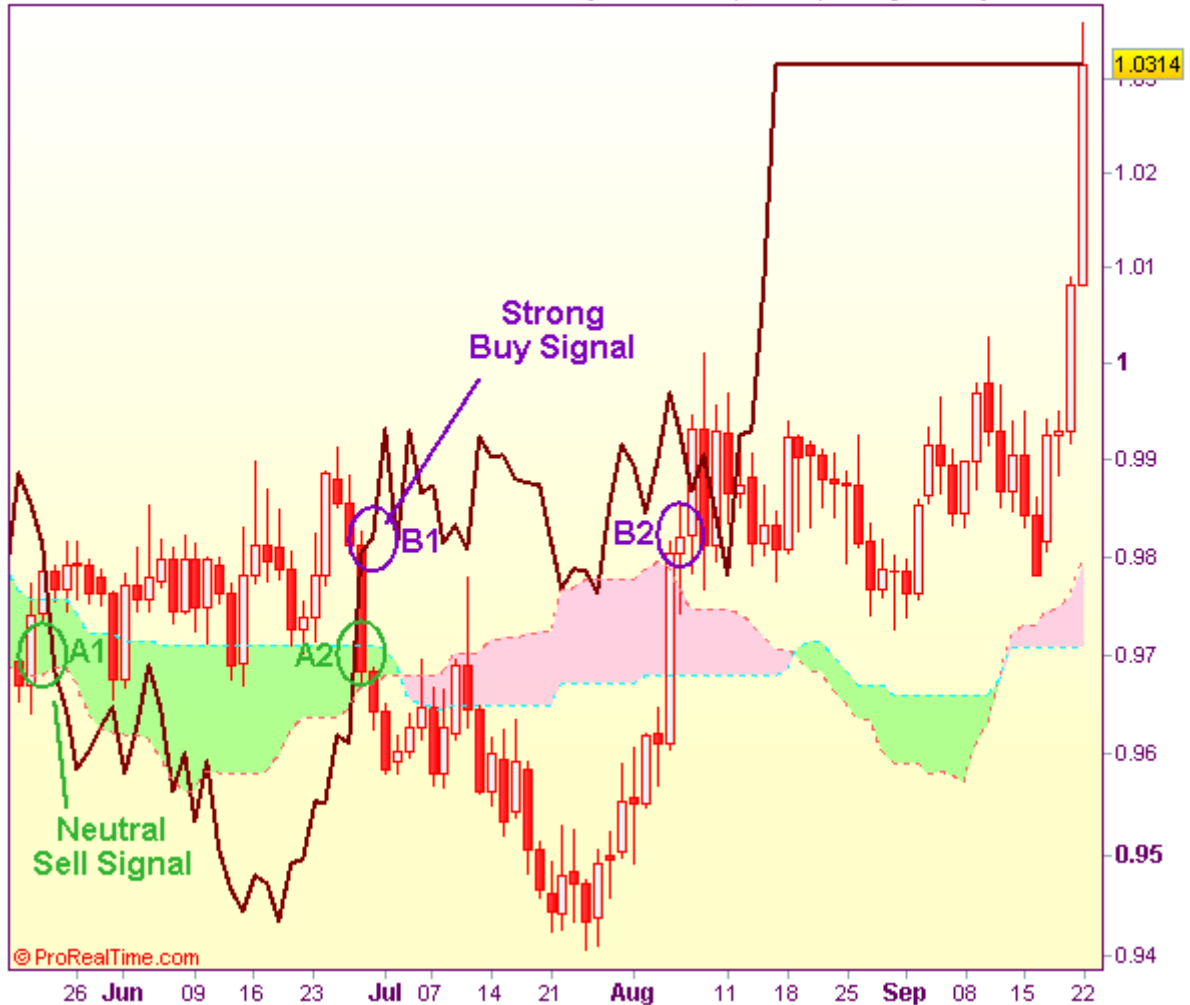
- A neutral buy signal occurs when a bullish cross-over takes place whilst the current price is trading within the Ichimoku cloud area;
- A neutral sell signal occurs when a bearish cross-over takes place whilst the current price is trading within the Ichimoku cloud area.

Weak signal:

- A weak buy signal occurs when a bullish cross-over takes place but the corresponding current price level is below the Ichimoku cloud;
- A weak sell signal occurs when a bearish cross-over takes place but the corresponding current price level is above the Ichimoku cloud.



In the above daily chart of AUD/USD, the Chikou Span crosses below the price curve at A1. The corresponding current price level A2 was just below the Ichimoku cloud, therefore this is a strong sell signal. AUD/USD quickly slipped to 0.9927. Although price then rebounded from there to as high as 1.0765, price faltered at the Ichimoku cloud top. More importantly the Chikou Span never crosses back above the price curve. AUD/USD then tumbled again from there and broke below 0.9927.



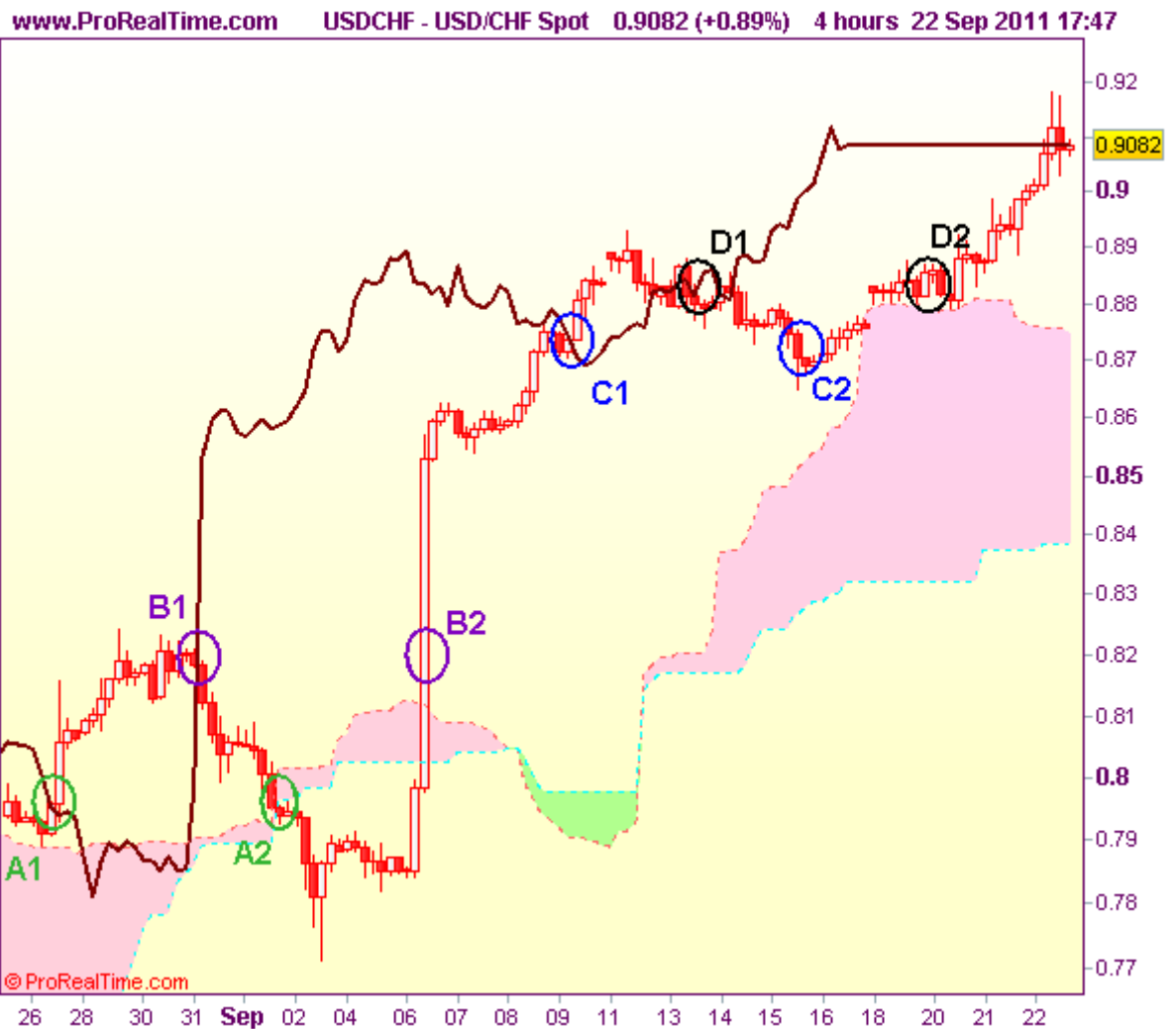
In the above daily chart of USD/CAD, the Chikou Span crossed the price curve on the far left at A1. The corresponding price level at A2 was trading within the Ichimoku cloud area, indicating this is a neutral sell signal. The currency pair slipped to as low as 0.9407 before staging a strong rebound.

On the subsequent rebound from 0.9407, the Chikou Span crossed above the price curve again at B1. The corresponding price level at B2 was clearly trading above the Ichimoku cloud top, so this is a strong buy signal. Although USD/CAD did not surge immediately from B2, price and Chikou Span continued to stay above the Ichimoku cloud. USD/CAD rallied eventually to above 1.0300 level.



In the above hourly chart of AUD/USD, the Chikou Span crossed above the price curve from below for the first time at A1, generated a buy signal. However, as the corresponding price level at A2 was clearly below the Ichimoku cloud area, this was only a weak buy signal. AUD/USD only rose briefly above the Ichimoku cloud top and turned down again from 1.0313.

Thereafter, the Chikou Span crossed back below the price curve from above at B1 (also at the same point of A2, looked like a cycle of 26 period is working on AUD/USD). The corresponding price at B2 was just below the Ichimoku cloud bottom, indicating this was a strong sell signal. One can see AUD/USD tumbled from around 1.0200 all the way for over 400 points to as low as 0.9730.



Although the above 4-hour chart of USD/CHF may look a bit messy with all the markings, this can illustrate how one can utilize the Chikou Span cross signals to ride along with the major trend and filter out those weak signals.

The first time that Chikou Span crossed the price curve at A1 was a sell signal as Chikou Span broke through price from up down. Corresponding price level at A2 was right within the Kumo, so this was merely a neutral sell signal. Although price did extend the retreat to 0.7711, USD/CHF rebounded quickly from there.

Thereafter the Chikou Span crossed above the price curve from below at B1, formed a buy signal. This time, corresponding price level at B2 was clearly above the Ichimoku cloud top. This was a strong buy signal and one can see buy rallied from there all the way to 0.8927 before retreating (from the break-out point of B1-B2 around 0.8210, it was an over 700 points rally).

When price retreated from 0.8927, the Chikou Span also retraced and broke below the price curve from above at C1. However, as the corresponding price level at C2 was well above the Ichimoku cloud, this was only a weak sell signal. Price only fell to 0.8647 before renewed buying interest emerged again.

Finally, the Chikou Span crossed above the price curve the fourth time in this chart at D1. Corresponding price level at D2 was still trading above the Ichimoku cloud top. Hence, this buy signal was a strong one and price did surge again from around 0.8850/55 to as high as 0.9183 (over 300 points rise).

Here are some guidelines on setting entry, exit, stop-loss and profit target levels for Chikou Span strategy.

Entry: The entry is quite straightforward, once the Chikou Span crosses above or below the price curve (where the signal is generated), the trader can enter a position accordingly. However, one has to wait for the closing price for the confirmation of the Chikou Span break-through of price curve.

Exit: Similar to the previous signals, the exit point in Chikou Span cross signal comes in when the Chikou Span crosses back the price curve in the opposite direction. Having said that, after a strong trending move, the Chikou Span will most likely to be quite far away. If one have to wait for a cross back in the opposite direction, that could be a bit late. So traders can take other indicators, such as the Tenkan-Sen or Kijun-Sen into consideration.

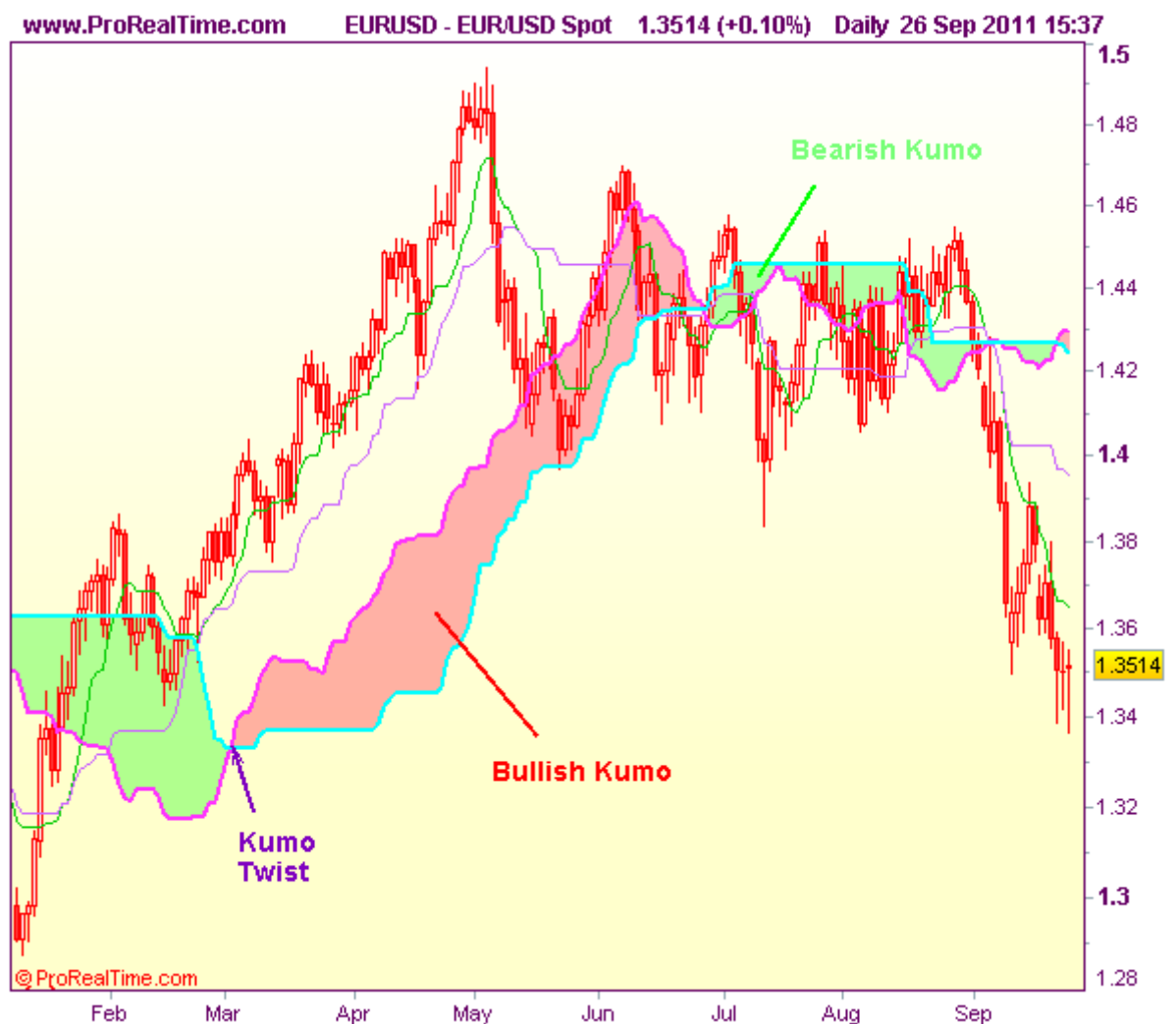
Stop-loss: In Chikou Span cross strategy, the placement of stop-loss isn't that clear when comparing to other Ichimoku signals. However, as indicated above that if Chikou Span crosses back price curve in opposite direction, one shall exit the position. So one can use the previous price level (26 period backward) to set the stop-loss. The most obvious way would be to place stop-loss above that particular bar high (or with 10-30 points buffer depending on the time frame).

Profit target: This is quite subjective. As indicated in previous chapter that the Chikou Span tends to meet support or resistance at the level of Tenkan-Sen, Kijun-Sen and Kumo 26 periods backward. Therefore, one can set target at these levels. Whilst in major trending move, all those lines will all be far behind the Chikou Span. Then one can only apply other projection technique or oscillators to help setting profit objectives.

V: Trading with the cloud / Kumo

First of all, let's talk about the Kumo sentiment. The Kumo/Ichimoku cloud is formed by the Senkou Span A and Senkou Span B. Shorter time period is used in the calculation of Senkou Span A (i.e. is a faster line compared to Senkou Span B). Therefore, this line will move along on top of the Senkou Span B in a rising market. In other words, when Senkou Span A is above Senkou Span B, the sentiment of this Kumo area is bullish.

On the other hand, when Senkou Span A is below the Senkou Span B, the sentiment of this Kumo/cloud area is bearish.



In the above chart, the shading area in red represents Kumo with a bullish sentiment with the Senkou Span A (the pink line) moving above the Senkou Span B (the blue line). When the Senkou Span A crosses below the Senkou Span B, i.e. the green area, this represents a bearish Kumo.

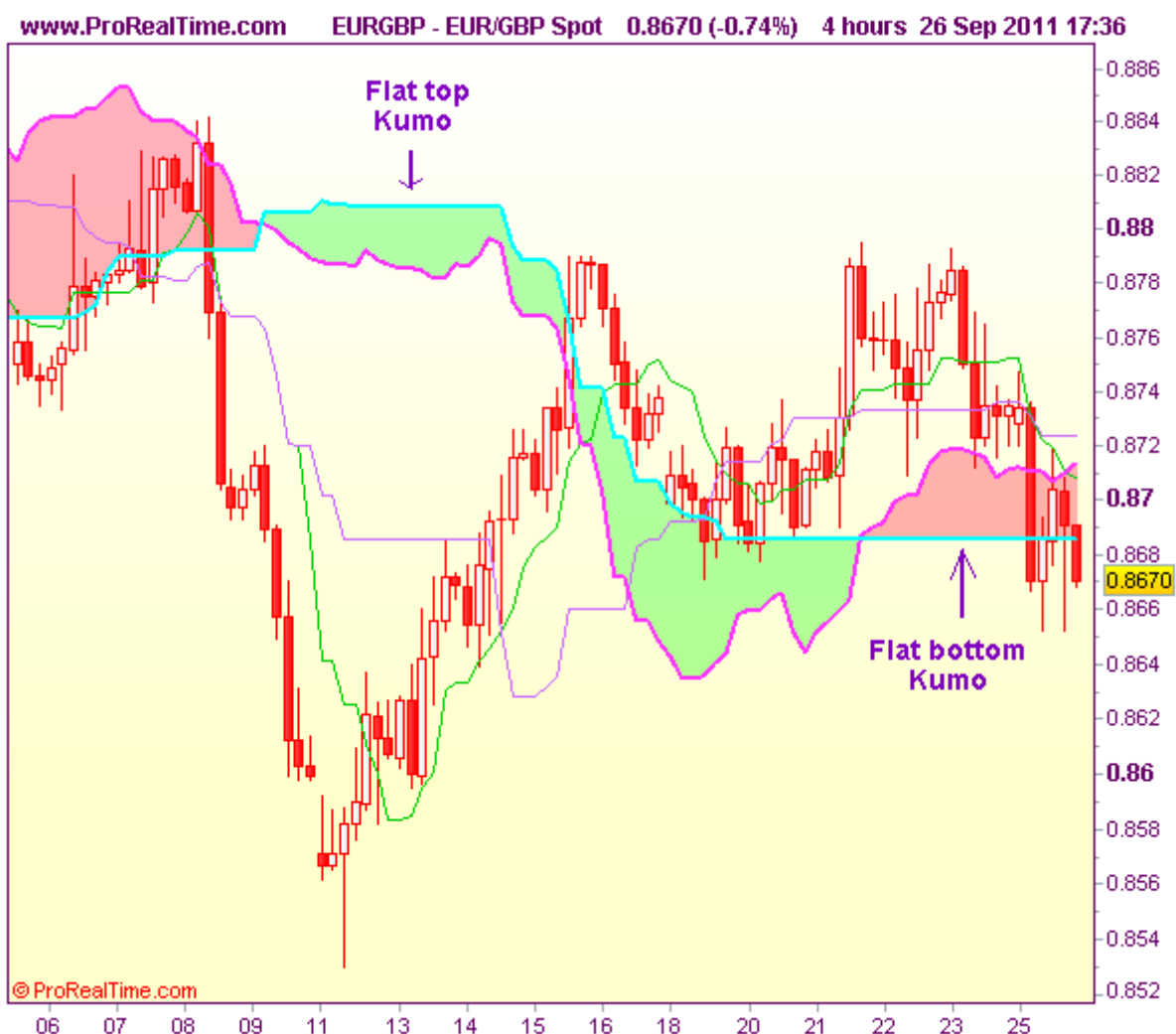
One should note that the change in Kumo colour takes place when the two lines cross-over, which is called *Kumo Twist*.

Flat top / bottom Kumo

Due to the long time period used in the formula, sometimes the Kijun-Sen move rather horizontally (or we call it the flat ground Kijun-Sen). Normally the flat ground Kijun-Sen tend to have a pullback effect or rubber band effect to the price. This happens when the price moved too far away from the Kijun-Sen, or in other words the move was over-extended, price tends to move back towards the flat ground Kijun-Sen.

Senkou Span B is also using a long time period of 52. When the Senkou Span B moves horizontally, the range of the past 52 periods remains the same and the location of the Senkou Span B represents the mid-point of this range. Some consider it as the price equilibrium.

Since price has a tendency to return back to equilibrium, the Senkou Span B will also have the similar kind of pullback or rubber band effect on price.



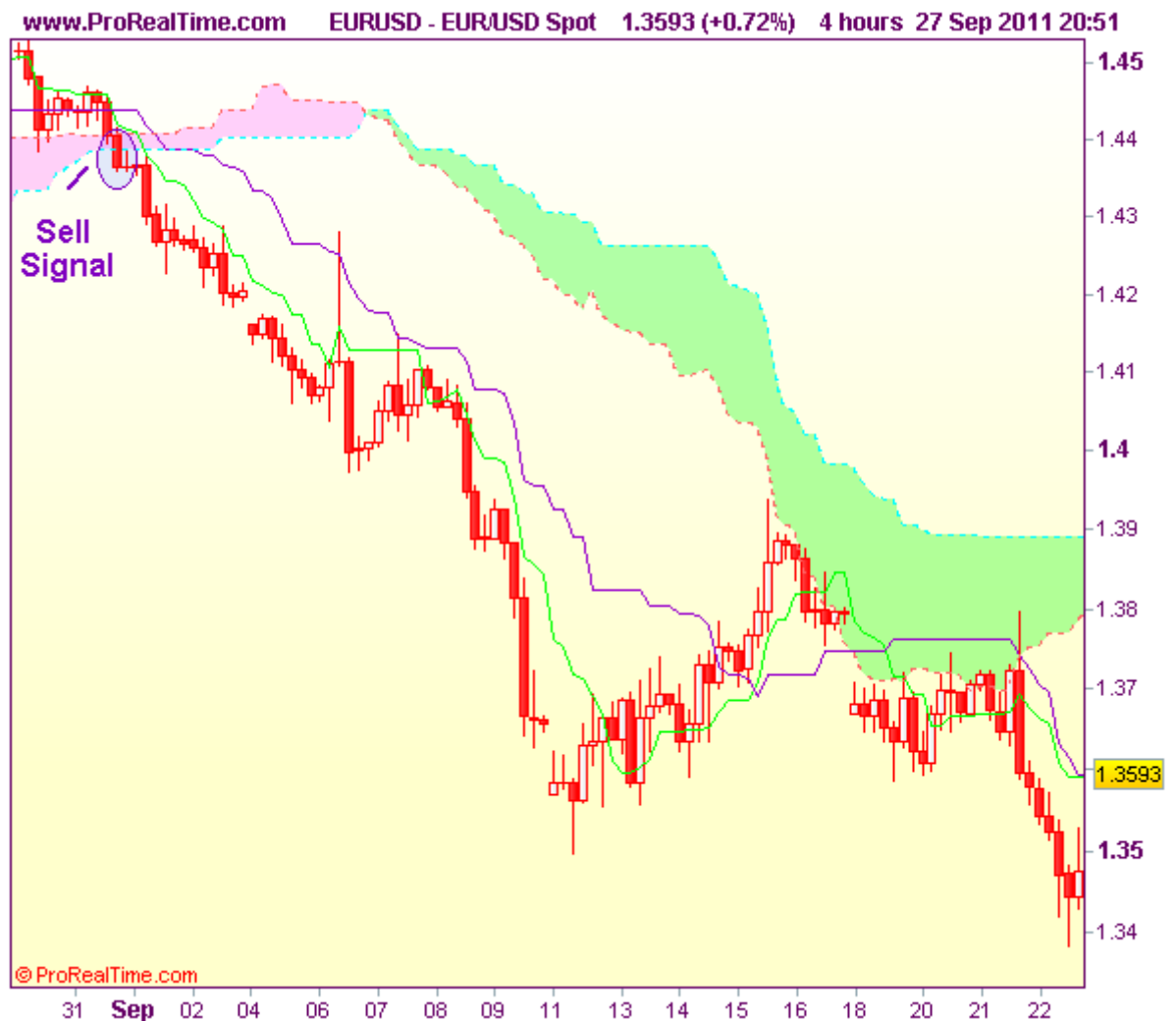
In the above chart, after the sharp selloff from 0.8842, the move was very much over-extended as supported by the flat top Kumo, price rebounded in part due to the pullback or rubber band effect from the flat Senkou Span B.

After the strong rebound from 0.8531, the Senkou Span B moved horizontally again and a flat bottom Kumo was formed on the right hand side of the chart. Once again price retreated on the pullback effect from the flat ground Senkou Span B.

The Kumo (or most people call it cloud and actually it means cloud in Japanese) is probably the most famous part of Ichimoku Kinko Hyo analysis and is getting more popular among chartists to identify support and resistance area. Some people even consider the Kumo as the core or key of this charting system and in fact the cloud itself is the most instantly visible component among the other lines in Ichimoku.

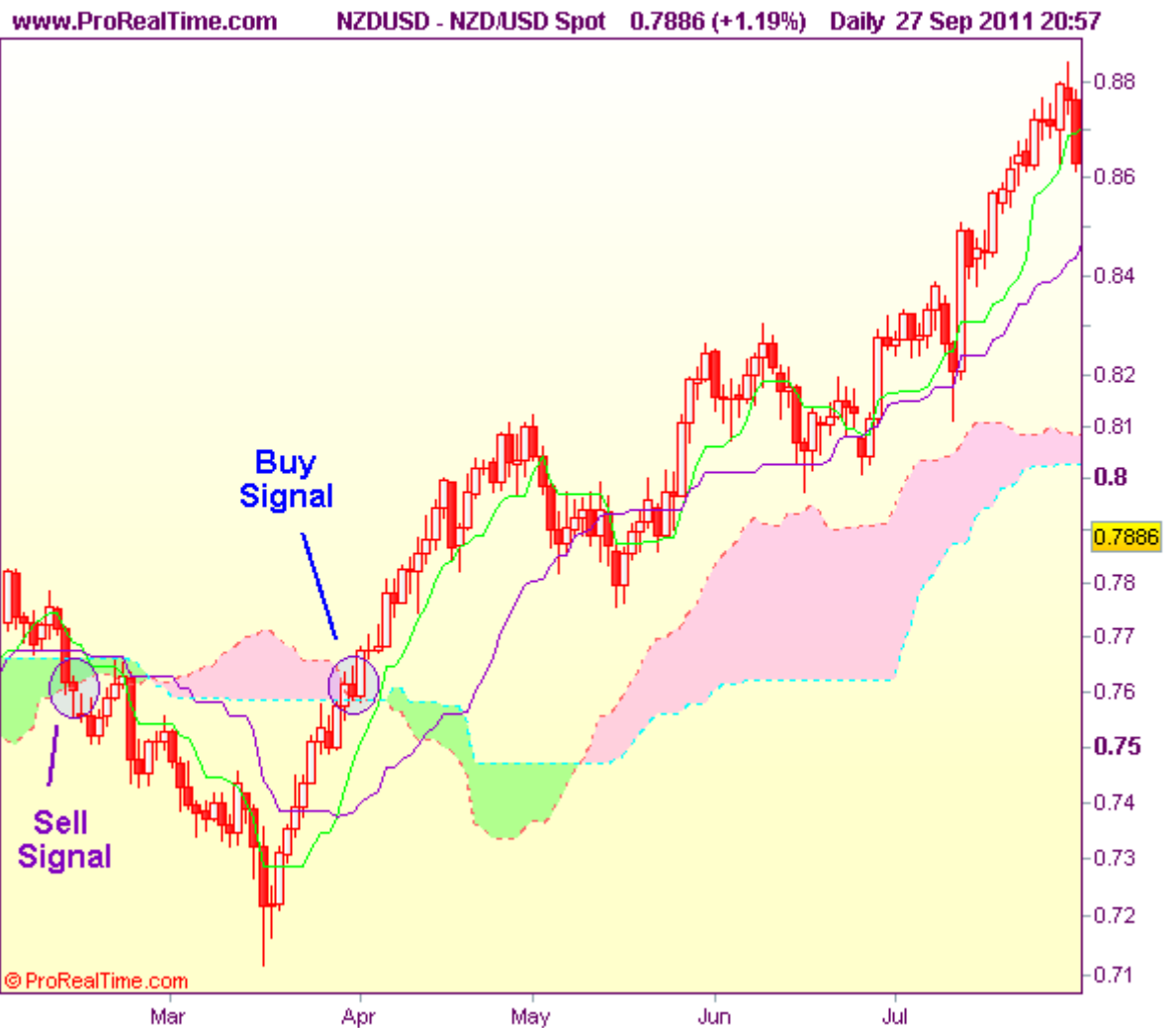
A Kumo Break-out trading signal is generated when price breaks through the **Kumo Break-out strategy**

Kumo area. Once price closes above the Ichimoku cloud top / upper Kumo, this confirms a buy signal. Likewise, when price closes below the Ichimoku cloud bottom / lower Kumo, this confirms a sell signal is generated.



In the above 4-hour chart of EUR/USD, when price broke through the Ichimoku cloud, a sell signal was generated. Once price closes below the lower Kumo (in this case a 4-hourly closing), this provided confirmation. Price then continued to fall for major part of September from around high 1.43 all the way down to 1.3400.

As long as price stays below the Ichimoku cloud area, the bearish sentiment remains and one can hold on to the short position entered on the break-out of Kumo.



In the above daily chart of NZD/USD, a sell signal was generated on the far left as price broke below the Ichimoku cloud bottom, kiwi then slipped to as low as 0.7120.

Thereafter, price reversed and turned upward from 0.7120. Once NZD/USD broke above the Kumo with a daily close above Ichimoku cloud top, a buy signal was confirmed. The currency pair then surged from around 0.76 for several months to as high as 0.8800.

From this chart, one can notice that the break-out signal comes in a little bit late from the actual reversal. However, if price is able to stay on the right side of the signal, i.e. above the Kumo after a buy signal and below the cloud after a sell signal, one can ride along all the way with the trend.

Here are some guidelines on setting entry, exit, stop-loss and profit target levels for Kumo break-out strategy.

Entry: The entry point is quite simple, after the break-out of the Ichimoku cloud, one can wait for the price closes above (for buy signal) or below (for sell signal) and enter the market right away in the direction of the breakout. However, one needs to be careful when the break-out takes place at the flat top or flat bottom Kumo area. Price may touch back the Ichimoku cloud due to the **pullback** effect.

Exit: As indicated at the above examples, as long as price stays on the corresponding side according to the break-out signal. So naturally the exit point would be when price breaks away from the opposite side of the Kumo. In other words, after a buy signals, if price breaks back below the Ichimoku cloud bottom, one should exit the position right away and vice versa for sell signal. Having said that, aggressive traders may consider this exit point will be too late as price normally moved pretty far away from the turning when price breaks on the opposite side of the Kumo. Therefore, one can also use other indicators such as the Tenkan-Sen / Kijun-Sen cross-over as other sign for exiting the position.

Stop-loss: Likewise, stop-loss should be placed on the opposite side of the Kumo of the signal, i.e. for a buy signal, stop-loss should be placed below the lower Kumo; for a sell signal, stop-loss should be placed above the upper Kumo.

Profit target: This really depends on the traders, since this is a trending signal, aggressive players may think the break of the opposite side of the Kumo too late, so one needs to take other indicators or technical techniques into consideration in order to set profit objective.

VI: Conclusions

Various trading strategies based on Ichimoku Kinko Hyo are discussed in this ebook. We believe the Ichimoku Kinko Hyo is a very power technical analysis tool in day to day trading activities. However, as this is mostly a trend analysis tool, it has a slight disadvantage when it comes to the market turning points. Signals will normally kick in a bit late when comparing to other technical analysis methods, e.g. Elliott Wave Theory, MACD, RSI.

This is the reason why we prefer to use Ichimoku could be used well together with Candlestick charting as all the reversal patterns in Candlestick analysis are the keys to fill in the missing puzzles in Ichimoku analysis.

Trading is a journey, not a destination.