

## Technical Indicators VII: Momentum

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Friday, 03 October 2008

Momentum measures the rate of change of the currency pair.

$$\text{Momentum} = V - V_n$$

Where

V = latest closing price

V<sub>n</sub> = closing price n periods ago

If there is no change of closing price, momentum equals to 0, which is the central line of the indicator. When there is a rise of price, momentum is greater than 0. If the closing price is smaller than the closing price n periods ago, momentum is a negative value. The most common period for n is 14, traders can adjust the value according to their preference.

## Applications of momentum

### 1. Detect overbought/oversold conditions

When momentum reaches upper boundary level, the pair is considered to be overbought. If momentum reaches lower boundary level, the pair is considered to be in oversold condition. Since momentum has no fixed range, there is no standard value for the upper and lower boundary. Traders may consider different boundary values for different currencies after a while of observation.

### 2. Spot divergence

If momentum is at near its boundary and it heads in a different direction with the price, a divergence is occurred. Divergence may signal a weakening of the current trend or a reversal may happen.

### 3. Crossing the central line

The cross over of the central line is deemed as a change of direction of the general trend. When momentum crosses below the central line, a sell signal is issued, whereas a cross above the central line, a buy signal is generated.