The overnight chart, and what to read off it

> **OVERNIGHT RANGE**
>
> The high and low a futures series makes while its cash market is closed. It is the only record of what happened in those hours, and it is made in thinner conditions than the day session - so it answers questions the cash chart cannot, while deserving less weight than a range of the same size made in the session.

The previous lesson sent you here to find out whether a gap meant anything. This is what the overnight chart can and cannot tell you.

The two numbers worth having

The overnight high and low. They bound everything that happened while the cash index was frozen, and the cash open lands either inside them or outside them - which is the whole of the previous lesson's test.

They are also the most-watched reference points of the early session, for the ordinary reason that everybody can see them and there is nothing else from those hours to look at.

Why the range deserves a discount

Fewer participants are quoting overnight. A move of a given size takes less money to produce than the same move at midday, so the range overstates how much was happening.

This is the same fact as the wider spread you would have paid, seen from a different angle. A level made at 03:00 on light participation is a weaker claim about where people will deal than one made in the session, and treating the two as equivalent because they are the same number of points is the error worth avoiding.

What it is not evidence of

Not direction for the session. An overnight drift reverses at the open often enough that reading it as a forecast is unsupported.Not the constituents' opinion. The shares were shut; only the contract had a view.Not a complete record. Some hours are thinner than others, and a range can be one participant wide.

Reading it honestly

Use it for what it is: the missing path. It tells you whether the open is new information or old information finally being drawn, and it gives you two reference levels everyone else is also looking at.

Anything beyond that - what the move meant, whether it continues - is module 5, and it needs more than a thin overnight session to support it.

Check your understanding

1. Why should an overnight range be weighted less than a day-session range of the same size?

a. Overnight prices are estimates
b. Fewer participants are quoting, so a given move takes less money to produce
c. The exchange filters overnight trades from the record

Answer: b. It is the same fact as the wider overnight spread, seen from another angle. The range overstates how much was happening.

2. What is the overnight chart good for?

a. Predicting the session's direction
b. Supplying the path the cash chart is missing, and two reference levels
c. Showing what the constituent shares did overnight

Answer: b. The shares were closed; only the contract traded. What the overnight series gives you is whether the open is new information, plus two levels everyone can see.