

Futures margin is not a cost

INITIAL MARGIN

The deposit a clearing house requires to hold one futures contract - a performance bond guaranteeing you can honour losses, sized to plausible daily moves. It is not a fee, not a price, and not spent: it remains your money, returned when the position closes, minus only what the position itself lost.

Almost every retail explanation of futures gets this wrong, so this lesson will be pedantic on purpose: margin is not a cost. Nothing is charged. Nothing is spent. Nothing needs earning back.

What margin actually is

The clearing house stands behind every trade, so it holds a deposit from both sides - sized so that a bad day's move cannot leave either unable to pay. Post an illustrative 5% on one \$80,000 crude contract and \$4,000 moves from your cash to your margin account. Your money, still. When the position closes, it comes back, adjusted only by the position's own profit or loss. A parking deposit, not a parking fee.

Where the muddle comes from

Margin gets called a cost because it arrives entangled with leverage, and leverage does have consequences. Posting \$4,000 to control \$80,000 means a 5% move in the commodity is a 100% move against the deposit - but that is the arithmetic of exposure, priced in module 1, not a charge anyone levied. And tying up \$4,000 has an opportunity cost - but so does every use of capital, and futures margin can often be posted in interest-bearing form, which makes it one of the cheaper places idle collateral sits.

The clean ledger

Margin: a returnable deposit. Not in the cost column, ever. CFD financing: interest on borrowed notional. A real cost, in the column, nightly - last lesson's subject. The exposure itself: not a cost either, but the thing that can actually lose money, and the reason the deposit exists.

Keep the three lines separate and wrapper comparisons finally read honestly: futures tie up more capital and charge nothing to hold; CFDs tie up less and run a nightly meter. Which trade-off wins depends on the holding period - and that question already has a module 3 lesson of its own.

Check your understanding

1. A trader posts \$4,000 margin, holds the contract two weeks, and closes flat. What did the margin cost?

- a. \$4,000
- b. Nothing - the deposit returns in full when the position closes flat
- c. The exchange's nightly margin fee for fourteen nights

Answer: b. Margin is a performance bond, not a payment. Close flat and it comes back whole. The only money that leaves a futures position is what the position itself loses, plus explicit fees.

2. Why does margin get mistaken for a cost?

- a. Because clearing houses keep a percentage of it
- b. Because it arrives entangled with leverage, whose loss-magnifying arithmetic feels like a charge
- c. Because it is non-refundable on losing trades

Answer: b. Small deposit, large exposure: a 5% move wipes the deposit, and that violence gets misread as margin 'costing' something. The exposure does the damage; the deposit just measures it.

3. Which of these belongs in the cost column?

- a. Futures initial margin
- b. CFD overnight financing
- c. The notional a contract controls

Answer: b. Financing is interest actually charged, night after night. Margin is a returnable deposit and notional is the exposure's size - neither is money paid to anyone.