When funding exceeds the spread

> **FUNDING AS THE DOMINANT COST**
>
> For a held leveraged position, funding is usually the largest cost by far - it accrues every few hours and compounds, so a modest-looking rate annualises into double digits and can exceed a year of spreads and fees in weeks. The seed's demand made concrete: funding can silently exceed the spread, and this module makes it visible - as a cost for those who can trade perpetuals, and a signal for the spot holder who cannot.

The seed asked this module to make funding visible, because it hides: a rate quoted as 0.01% per eight hours reads like nothing and annualises like a serious cost. This lesson does the arithmetic that the quote obscures.

The arithmetic funding hides

Funding of 0.01% paid three times a day is 0.03% daily - which annualises to about 10.95% a year, a rate that would be a headline cost anywhere else on the platform, quoted as a number that looks like a rounding error. And funding runs far higher than 0.01% in crowded markets: sustained rates several times that turn a held leveraged long into a position bleeding double-digit annualised percentages to the shorts, invisibly, every eight hours. The spread was paid once; funding is paid 1,095 times a year - the seed's warning, in numbers: funding silently exceeds the spread, usually within weeks.

Why it hides so well

The unit is tiny and frequent: a per-eight-hour percentage reads as trivial and accrues relentlessly - the psychological opposite of a visible fee.It is not on the trade ticket: funding debits and credits arrive on a schedule, separate from the position's price P&L - easy to overlook until they dominate.It swings and can pay: sometimes funding is received, which trains inattention - until the regime flips and the same position pays what it used to earn.

The two audiences

For those who can access perpetuals: funding is the standing cost, the perpetual's answer to the futures roll - it belongs in every held position's cost estimate at its annualised rate, and a strategy that holds through high funding must clear it exactly as a futures strategy clears the roll. For the spot holder who cannot: funding is a signal - extreme rates mark the crowded leverage that precedes cascades, readable on any funding chart, a free read on the pressure in the layer that moves spot. Either way, made visible - which is the lesson the seed asked for.

Check your understanding

1. Funding of 0.01% is paid three times a day. What does it annualise to, roughly?

a. About 0.3%

b. About 10.95% a year - 0.03% daily compounded over the year, a headline cost quoted as a rounding error

c. About 3.65%

Answer: b. The quote hides the arithmetic: paid 1,095 times a year, a trivial-looking rate becomes a double-digit annual cost - the seed's 'silently exceeds the spread', in numbers.

2. How should a spot holder who cannot trade perpetuals use funding?

a. Ignore it entirely

b. As a signal: extreme funding marks crowded leverage that precedes cascades - a free read on the pressure in the layer that moves spot

c. As a direct cost on spot

Answer: b. Funding does not cost the spot holder, but it forecasts the cascades that move their asset. Made visible, it is a pressure gauge readable on any funding chart.