

Liquidation prices, where leverage is used

THE LIQUIDATION PRICE

On leveraged crypto venues, the price at which the exchange force-closes a position because its margin is exhausted - computed from entry, leverage and maintenance margin, and often far closer than the trader expects at high leverage. Individual liquidations aggregate into the cascades of module 1: each forced close pushes price toward others' liquidation prices, which is why the leverage layer moves the whole market. Taught as structure; UK retail cannot be sold these products, per module 3.

Module 3 explained funding; this lesson explains the other half of the leverage layer - the liquidation price, where a leveraged position is force-closed, and where the cascades that move spot are born. Taught, as the track's derivative content is, for comprehension of the market every reader trades, not as access.

How the price is set

A leveraged position posts margin, and the venue computes the price at which that margin is exhausted - the liquidation price. At 2:1 it sits far from entry; at 20:1 or higher - leverage crypto venues offer freely - it sits close enough that an ordinary session's move reaches it. Beyond it, the venue force-closes at market, into whatever book the moment holds: the futures forced ladder, faster, with less headroom, and with a maintenance buffer thinner than the volatility around it. High leverage in a 20%-session market places the liquidation price inside the ordinary range - which is why so many leveraged crypto positions are liquidated by moves that would be unremarkable at spot.

Why liquidations cascade

Each liquidation is forced market flow: a long liquidated sells, pushing price down toward the next long's liquidation price - and the next, in a chain the leverage layer of module 1 named. Clustered leverage clusters liquidation prices: when the market is crowded at similar leverage, their liquidation prices stack, and a move into the cluster triggers a cascade that runs until the leverage is flushed. Funding flagged it: extreme funding (module 3) marks the crowded leverage whose liquidation prices are stacked - the pressure gauge and the cascade fuel are the same reading.

What the spot holder takes from this

The spot holder is never liquidated - owning the coin, not a leveraged derivative, there is no liquidation price - but the cascades set the fills on their stops (lesson 3) and drive the volatility they size for (lesson 2). So the liquidation price is read, not held: the aggregate leverage and its liquidation clusters, visible through funding and open interest, forecast the cascades that move the spot asset. The leverage layer the reader cannot trade is the leverage layer that moves what they can - and reading its liquidation structure is reading the source of crypto's violence.

Check your understanding

1. Why does high leverage place the liquidation price inside the ordinary range?

- a. Exchanges set it arbitrarily
- b. Higher leverage means thinner margin, so the price at which margin exhausts sits closer to entry - and in a 20%-session market, an ordinary move reaches it
- c. Liquidation prices are random

Answer: b. Margin exhaustion is nearer at high leverage. Crypto's freely-offered high leverage plus its volatility places liquidation inside the normal range - which is why ordinary moves liquidate leveraged positions.

2. How does a spot holder use liquidation prices they never face?

- a. They do not - spot has no liquidations
- b. As a read: aggregate leverage and its liquidation clusters, visible through funding and open interest, forecast the cascades that set stop fills and drive spot volatility
- c. To time the exact bottom

Answer: b. The leverage layer the reader cannot trade moves what they can. Reading its liquidation structure is reading the source of the violence spot must be sized against.