Cash management under the daily mark

> **VARIATION BUDGETING**
>
> Estimating tonight's plausible cash flow before holding through it: the position's per-point value times the day's plausible range, held as headroom above initial margin. Variation margin is not a cost - but running out of cash to meet it is how sound positions die, and the budget is the discipline that separates the machinery's demands from its damage.

Module 1 said free cash is a risk number. This lesson does the budgeting - because the daily mark's demands are computable in advance, and positions fail on cash more often than on price.

The budget, two multiplications

Per-point value times plausible daily range is tonight's plausible variation flow: a position moving £20 a point in a market that ranges 80 points on an ordinary day can send or demand £1,600 by morning - and multiples of that on a data day, which module 2's calendar names in advance. Headroom is sized from exactly this arithmetic: enough plausible-bad-days of variation, in cash, above initial margin, that the machinery's ordinary operation never becomes a forced decision.

What thin headroom actually costs

Forced exits at the machinery's moment: insufficient cash meets a margin call, and the call's timing belongs to the clearing house - the platform's oldest bad-execution setup.Right-but-early positions killed: a trade that would have worked, closed by a cash shortfall during ordinary adverse variation - the specific failure daily settlement makes possible and budgeting makes impossible.Compounded weekends and limit days: variation accrues across gaps too - the budget uses plausible ranges including the scheduled events, not calm-day averages.

The habit and its ledger line

Before any position is held overnight: per-point value, plausible range, tonight's flow, current headroom - four numbers on one line. Module 4 will make headroom a formal risk metric with its own floor; module 7 will journal margin usage beside performance. This lesson's contribution is the framing: the daily mark is the asset class's honesty, and cash management is simply the price of being told the truth nightly - budgeted, it is bookkeeping; unbudgeted, it is the mechanism that turns honesty into forced selling.

Check your understanding

1. A position moves £20 per point and the market ranges 80 points on ordinary days. What is the minimum honest overnight budget question?

a. Whether the position is profitable

b. Whether headroom covers £1,600 of plausible variation - times several for data days - in cash, above initial margin

c. Whether the margin requirement will change

Answer: b. Per-point value times plausible range is tonight's flow. The budget holds enough plausible-bad-days of it that the machinery never forces a decision.

2. What specific failure does variation budgeting prevent?

a. Losses on wrong positions

b. Right-but-early positions killed by cash: closed during ordinary adverse variation, at the clearing house's timing - death by shortfall, not by price

c. Commission drag

Answer: b. Daily settlement makes cash exhaustion a failure mode independent of being right. The budget is what keeps the machinery's honesty from becoming its harvest.