

# Margin and leverage: the same number twice

## MARGIN AND LEVERAGE

Margin is the deposit your broker sets aside from your balance while a position is open, calculated as the position's full value divided by the leverage ratio. Leverage and margin requirement are the same fact written two ways: 30:1 leverage means a 3.33% margin requirement. Margin is not a cost while things go well - it is collateral, returned when the position closes, and the mechanism by which a small account controls a large position.

Half a lot of a major pair is a position worth tens of thousands in any currency. Your account holds a fraction of that. The machinery that permits this was mentioned in module 1 and deferred here, and it runs on one number your broker never lets reach zero: margin.

## What is the broker actually holding?

Open a position and the broker calculates its full value - the notional - and sets aside a percentage of your balance as collateral against it. That slice is the used margin. It has not been spent; you cannot lose it by it being held; it returns to your free balance when the position closes. What it does while held is limit what else you can open, and mark the line your account must stay above.

## Why are leverage and margin the same number?

A 30:1 leverage ratio means the broker requires one-thirtieth of the position's value as collateral, and one-thirtieth is 3.33%. Quote either number and you have quoted both. High leverage is a low margin requirement, which sounds like generosity and is arithmetic: the less collateral held per position, the larger the position your balance can carry, and the less adverse movement it takes for losses to reach the collateral. Lesson 8 walks that mechanism to its end.

## How does the requirement scale?

Linearly, through the notional. Double the lots, double the notional, double the margin held. The price level matters too, because notional is lots times contract size times price, converted into your account currency where needed - which is why the worked example states the price rather than waving at it.

What margin is not: a cost. It appears in this module because it is the collateral system the costs drain, and because the two lessons cannot be understood in the wrong order. This one is the machine at rest. Lesson 8 is the machine deciding your position no longer belongs to you.

### Worked example - figures in USD

**0.5 lots of EUR/USD at a price of 1.087, on an account offering 30:1 leverage.**

1. Compute the notional: 0.5 lots at contract size times a price of 1.087 is 54,350 in the quote currency, worth \$54,350 in your account currency.
2. Apply the requirement: at 30:1, the broker holds 3.33% of the notional - \$1,812 of your balance, set aside for as long as the position is open.
3. Read it both ways: 30:1 and 3.33% are one fact. Neither is money spent; both are the collateral the next lesson's arithmetic starts from.

Diagram: 30:1 and 3.33% describe the same deposit. One sounds like power, the other like a requirement.

View it in the web lesson: <https://ticksprout.com/learn/fx/costs-and-mechanics/margin-and-leverage-the-same-number-twice>

## What this means for you

Before any trade, know its notional and its margin in your currency, not in ratios. Ratios feel abstract; the account-currency numbers make the machine's scale visible. A position whose margin uses most of your balance has no room to breathe, and lesson 8 shows precisely - to the percentage point - how little adverse movement such a position survives.

Try it yourself with the margin-requirement calculator: <https://ticksprout.com/tools/margin-requirement>

## Check your understanding

### 1. Your broker offers 30:1 leverage. What margin requirement is that?

- a. 3.33% - they are the same fact written two ways
- b. 30% - the numbers match
- c. It depends on the pair's volatility

Answer: a. Margin percent is 100 divided by the leverage ratio:  $100/30 = 3.33\%$ . The two express one relationship. Volatility affects many things; the stated requirement is not one of them.

### 2. Is used margin a trading cost?

- a. Yes - it is deducted like commission
- b. No - it is collateral, set aside while the position is open and released when it closes
- c. Only when the position loses

Answer: b. Margin is held, not spent. Losses come from price movement, spread, commission and financing; the margin itself returns on close. Its role is to be the collateral those losses are measured against.

**3. What does doubling your lots do to the margin requirement?**

- a. Nothing - the requirement is a percentage
- b. Doubles it, because the notional doubles and the requirement is a percentage of the notional
- c. Halves it

Answer: b. The percentage stays fixed; the notional it applies to doubles, so the money held doubles with it. A fixed percentage of a growing number grows.