Swap and rollover, properly

> **SWAP AND ROLLOVER**
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> Holding an FX position through 5pm New York rolls it to the next settlement date, and the interest rate difference between the pair's two currencies is charged or credited to your account per lot per night. The direction and size of that number come from the two currencies' rates and your broker's mark-up, it runs both ways, and on most retail positions most of the time it is a cost.

Module 1 promised that what happens to a position held overnight belonged in this module. Here it is. At 5pm New York, every open FX position rolls: yesterday's settlement date becomes tomorrow's, and money moves in or out of your account for the privilege.

Why does holding a currency pair involve interest at all?

A spot FX position is two loans wearing one price. Long EUR/USD, you hold euros and owe dollars, so you earn something like the euro interest rate and pay something like the dollar one. The gap between the two rates, scaled to your position and marked up by your broker, is the swap. When the currency you hold yields less than the one you owe, the number is against you.

The rates involved are overnight interbank rates, and the mechanism that applies them is called tom-next - tomorrow-next - because your position's settlement rolls from tomorrow to the day after. You never see the machinery. You see one signed number per lot per night on your broker's specification page.

Why does Wednesday charge three nights?

Spot FX settles two business days ahead. Roll a position on Wednesday evening and the new settlement date lands on Monday, carrying the weekend with it - three days of financing applied in one go. Brokers vary in which evening carries the triple charge, and the specification page states it. A position held Wednesday to Thursday costs three nights of swap while feeling like one.

Does the number ever run in your favour?

Yes, and treat that fact carefully. Reverse a position and the interest gap reverses with it, minus the broker's mark-up on both sides, so one direction of most pairs carries a credit. A credit is a reduction in your holding cost. It is not a reason to hold a position, and a strategy built on collecting it is a bet that the exchange rate will sit still while you collect pennies in front of it - the rate moving one bad day can take back months of credits. This module prices costs; whether to hold a position is a decision your analysis makes, never your financing line.

The practical fact is simpler and less exciting: on most pairs, at most times, in the direction most retail positions point, the swap is a charge. Budget it like one.

Worked example - figures in USD

Your broker publishes -$8.20 per lot per night on the pair, you hold 1 lot for a full trading week - five nights including the triple-charged one.

1. Read the published rate: -$8.20 per lot per night, sign included - the rate carries its own direction.
2. Count the nights the position is actually charged: 5 calendar nights of holding with 1 triple-charged evening makes 7 charged nights.
3. At 1 lot, each charged night moves your account by -$8.20, and the week's financing comes to -$57.40 - applied whether the position is winning or losing.

Diagram: Financing lands once a day at 5pm New York. Wednesday charges three, because it carries the weekend. View it in the web lesson: https://ticksprout.com/learn/fx/costs-and-mechanics/swap-and-rollover-properly

What this means for you

Before holding anything past 5pm New York, read the swap line on your broker's specification page for your pair and your direction, and multiply it out for your intended holding period, triple night included. A week's financing on a standard lot is a real number in every currency, and it accrues silently on a position you are not looking at. If the number surprises you, the time to be surprised is before entry.

Try it yourself with the swap-cost calculator: https://ticksprout.com/tools/swap-cost

Check your understanding

1. Where does the overnight swap number come from?

a. The interest rate difference between the pair's two currencies, scaled to the position and marked up by the broker

b. A fixed regulatory fee for overnight positions

c. The spread, charged a second time each night

Answer: a. A spot position holds one currency and owes the other, so it earns one rate and pays the other; the gap, with the broker's mark-up, is the swap. It is not regulatory, and it is separate from the spread entirely.

2. Why does one evening a week charge three nights of financing?

a. Brokers penalise mid-week holding
b. Spot settles two business days ahead, so one evening's roll carries the weekend's dates with it
c. Interest rates triple on Wednesdays

Answer: b. Rolling settlement across the weekend means one roll covers three days. Which evening it lands on varies by broker and is stated in the specification - it is date arithmetic, not a penalty and not a rate change.

3. The swap on your intended direction is a credit. What does that mean for the trade decision?

a. Nothing by itself - it lowers the holding cost, and the position still stands or falls on the exchange rate
b. The trade is now favourable, because you are paid to hold it
c. The broker has made a pricing error you should use quickly

Answer: a. A credit reduces cost; it does not make a position good. The exchange rate's movement dwarfs the financing line, and a strategy of holding for credits is a large bet placed to collect a small payment. Brokers price swaps deliberately - a credit is not an error.

4. When is swap charged relative to your position's performance?

a. Only on losing positions
b. Only on winning positions
c. On any position held through the roll, regardless of performance

Answer: c. Financing follows holding, not outcome. Every position open at 5pm New York rolls and is charged or credited its published rate - the trade's profit or loss is a separate matter entirely.