# The future has no nightly charge, because it is in the price

> **EMBEDDED FINANCING**
>
> The cost of carry contained in a futures price rather than charged nightly. A contract settling in the future prices in the financing to that date and the dividends expected before it, so a futures holder pays the same economics as a cash holder - once, in the entry price, rather than in instalments.

A futures position on an index is not charged overnight financing. That is true, frequently quoted, and routinely misunderstood as meaning futures are free to hold.

## Where the money went

A future settling in three months is a commitment to the index at that date. Its price reflects the index now, plus the cost of financing the exposure until then, minus the dividends expected in between.

So you paid for the carry when you bought, embedded in a price a little away from the cash index. Nobody bills you nightly because the bill was settled at entry.

## Why this changes the arithmetic and not the economics

Over the same holding period, the two vehicles charge broadly the same economics by different routes. Where they differ is in how the charge behaves as the holding period changes.

Cash CFD: the cost accrues with every night held, so it scales with time.Future: the cost was fixed when you entered, so holding longer within the contract's life adds nothing further.

That difference in shape is the whole of lesson 8, and it is why the cheaper vehicle depends on the calendar rather than on the brochure.

## What you pay instead

Futures charge commission and exchange fees explicitly, and their spreads are quoted in the same points as everything else. The contract sizes are also usually larger, so the minimum position is bigger - a practical constraint more often than a cost one.

And the contract expires, which means a position held beyond it has to be moved to the next one. What that costs, and how it is done, belongs to the futures track. Module 2 lesson 7 covered what it does to your chart.

## The honest summary

Not free to hold. Prepaid to hold, at a price fixed when you entered, for as long as that contract lives.

## Check your understanding

### 1. Why does a futures position pay no overnight financing?

a. Futures are exempt from financing charges
b. The carry to expiry is embedded in the price you paid at entry
c. Exchanges absorb the financing cost

Answer: b. A contract settling later prices in the financing to that date, net of expected dividends. The bill was settled at entry rather than nightly.

### 2. How does the shape of the cost differ between a cash CFD and a future?

a. The CFD's cost scales with nights held; the future's was fixed at entry
b. The future's cost scales with nights held; the CFD's is fixed
c. Both scale identically with time

Answer: a. Broadly the same economics by different routes, but one accrues and the other does not. That difference in shape is what makes the cheaper vehicle a function of the calendar.