Overnight financing on a cash index position

> **OVERNIGHT FINANCING**
>
> The charge for holding a leveraged cash index position from one day to the next. You are exposed to the full value of the position while having posted a fraction of it, and the rest is effectively borrowed - so it accrues interest nightly, at a rate the broker sets around a reference rate.

This is the cost people discover in a statement rather than in advance, and on a position held for weeks it routinely exceeds the spread they shopped around for.

Why there is a charge at all

A cash index position gives you the exposure of the whole contract while you have posted a fraction of its value. The difference is financed, and financing costs money.

So the charge is not a fee the broker invented. It is interest on the part of the position you did not fund, plus the broker's markup on that rate.

It has a direction

The long side pays: you are financing an asset position. The short side receives the reference rate and pays the markup, so whether a short earns or costs depends on where rates are and how large the markup is.

When reference rates are near zero, shorts typically pay too, because the markup exceeds what is credited. When rates are high, a short position can genuinely earn.

Counting the nights

It accrues per night held, not per day traded. A position opened and closed inside a session pays none of it, which is the entire reason day traders and swing traders shop for different things.

Weekends are charged, though brokers differ on how: some apply three nights on a Friday, others charge seven nights a week at a lower rate. Read yours rather than assuming - and count charged nights, not calendar days, which is the same discipline the FX track's swap lesson teaches.

Worked example - figures in USD

An illustrative overnight rate of -$2.30 per contract per night on a long cash index position, held for ten nights. Rates are your broker's and change without notice.

1. The broker publishes -$2.30 per contract per night on the long side, sign included.
2. You hold 1 contract for 10 nights, so 10 nights are charged at -$2.30 each.
3. The position has cost -$23.00 in financing before the index has done anything at all. Nothing about that number depends on whether the trade is working.

The comparison worth making

Set that total against the spread from lesson 2 and the ranking of the two costs flips somewhere in the first fortnight. On this example it flips almost immediately.

Which is the module's central point, and lesson 8 turns it into a number you can calculate before opening the position rather than discover after closing it.

Check your understanding

1. Why is a cash index position financed at all?

a. Brokers charge a holding fee for administration
b. You have the exposure of the whole contract having posted a fraction of it - the rest is effectively borrowed
c. The index provider licenses the price nightly

Answer: b. It is interest on the part of the position you did not fund, plus the broker's markup. Not a fee invented for the purpose.

2. When does a short index position genuinely earn financing?

a. Always - shorts receive rather than pay
b. When the reference rate exceeds the broker's markup
c. Never - both sides pay

Answer: b. The short receives the reference rate and pays the markup. Near zero rates the markup wins and the short pays too; with rates high it can earn.

3. A position opened at 09:00 and closed at 16:00 the same day pays how much financing?

a. A day's worth
b. None
c. Half a night

Answer: b. It accrues per night held, not per day traded. That single fact is why intraday and multi-week traders shop for completely different things.