

## **Anatomy of a Futures Trade**

On Tuesday morning, an investor takes a long position in a Swiss franc futures contract that matures on Thursday afternoon.

The agreed-on price is \$0.75/SFr and the contract size is SFr125,000.

Initial margin requirement is \$1,485.

Maintenance margin requirement is \$1,100.

## Tuesday Close

Futures price has risen to \$0.755.

Cash profit of  $125,000 \times (0.755 - 0.750) = \$625$  is deposited into the trader's account (daily settlement).

Investor has  $1,485 + 625 = \$2,110$  in his account.

Existing futures contract at \$0.75 is canceled and the investor receives a new futures contract with \$0.755 as the prevailing price.

## Wednesday Close

Futures price has declined to \$0.743.

Investor's payoff:  $125,000 \times (0.743 - 0.755) = -\$1,500$ .

Investor's account is debited (daily settlement):

$2,110 - 1,500 = \$610 < \$1,100$ .

Investor has less than the maintenance margin requirement.

If keeping his contract, he receives a margin call of

$$1,100 - 610 = \$490.$$

## Thursday Close

Futures price has declined to \$0.74.

Investor's payoff:  $125,000 \times (0.74 - 0.743) = -\$375$ .

Investor's net loss on the contract is \$1,250 ( $1,500 + 375 - 625$ ) before paying his commission.

Investor takes delivery of the SFr125,000.

A contract can be closed by an offsetting trade. A trader with a long position may offset his trade by taking a short position of equivalent size.