

Forex Margin and Leverage

Margin and leverage are among the most important concepts to understand when trading forex. These essential tools allow forex traders to control trading positions that are substantially greater in size than would be the case without the use of these tools. At the most fundamental level, margin is the amount of money in a trader's account that is required as a deposit in order to open and maintain a leveraged trading position.

What is a leveraged trading position?

Leverage simply allows traders to control larger positions with a smaller amount of actual trading funds. In the case of 50:1 leverage (or 2% margin required), for example, \$1 in a trading account can control a position worth \$50. As a result, leveraged trading can be a "double-edged sword" in that both potential profits as well as potential losses are magnified according to the degree of leverage used.

To illustrate further, let's look at a typical USD/CAD (US dollar against Canadian dollar) trade. To buy or sell a 100,000 of USD/CAD without leverage would require the trader to put up \$100,000 in account funds, the full value of the position. But with 50:1 leverage (or 2% margin required), for example, only \$2,000 of the trader's funds would be required to open and maintain that \$100,000 USD/CAD position.

Another concept that is important to understand is the difference between forex margin and leverage. Forex margin and leverage are related, but they have different meanings. We have already discussed what forex margin is. It is the deposit needed to place a trade and keep a position open. Leverage, on the other hand, enables you to trade larger position sizes with a smaller capital outlay.

Leveraged trading is a feature of financial derivatives trading, such as spread betting and CFD trading. Leverage can also be used to take a position across a range of asset classes other than forex, including stocks, indices and commodities.

Forex margin calculator

Calculating the amount of margin needed on a trade is easier with a forex margin calculator. Most brokers now offer forex margin calculators or state the margin required automatically, meaning that traders no longer have to calculate forex margin manually. To calculate forex margin with a forex margin calculator, a trader simply enters the currency pair, the trade currency, the trade size in units and the leverage into the calculator.

The forex margin calculator will then calculate the amount of margin required. For example, let's say a forex broker has a 3.3% margin requirement for EUR/USD, and a trader wants to open a position of 100,000 units. The currency pair is trading at 1.1500 and the trader's account currency is USD. When these details are entered into a forex margin calculator, it will calculate that the margin required is \$3,795. In other words, \$3,795 is needed to place the trade.

Forex margin calculators are useful for calculating the margin required to open new positions. They also help traders manage their trades and determine optimal position size and leverage level. Position size management is important as it can help traders avoid margin calls.