Cross Margin Trading Shows a Lot of Potential, But Why Can It Gain More Popularity?

PUBLISHED DEC 17, 2020
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Recently, Huobi Futures released data that showed it had reached over $2.6 trillion cumulative trading volume since its launch two years ago exactly. This is an impressive feat and speaks not only to the excitement around futures trading in the cryptocurrency space, but also the products being offered by Huobi.

Among the various product lines of Huobi, USDT-margined Swaps is growing strongly, accounting for 22.7% of the trading volume of all units as of December 3. Last week, Huobi launched a new function cross margin mode, which is now available on WEB, APP and API. By allowing users to share margins between open positions, Huobi is providing traders with greater flexibility and helping them avoid unnecessary liquidation when their overall portfolio is otherwise healthy.

Trading in cross margin mode is like putting all the property in a safe, and family members who hold the key have the right to withdraw money. If grandpa takes away some money, the money in the safe will decrease accordingly. If grandpa spends all the money alone, the other family members will have no money to spend.

An easy example. Tom transferred 20 USDT to his USDT cross margin account. Then he used 2 USDT to open a position of BTC/USDT, 2USDT to open a position of ETH/USDT. What will happen if one of the positions is being liquidated?

If a liquidation happens under the cross margin mode, all assets in the cross margin account will be lost. For example, if the BTC/USDT cross margin account is liquidated, the total of 20 USDT will be lost. By that analogy, if the ETH/USDT cross margin account is liquidated, Tom will lose the total 20 USDT in the cross margin account.

Different from isolated margin mode, in which the positions are easier to be liquidated and cause losses in a violent market or high leverage settings, cross margin is a margin method that utilizes the full amount of assets in the Available Balance to avoid liquidations. If cross margin is enabled, the trader risks losing their entire margin balance along with any open positions in the event of a liquidation. Any realized PnL from another position can aid a losing position that is close to being liquidated.

Since all available balances in the account are used as collateral assets, the positions are not that easy to be liquidated under a low leverage or flat market. However, in a volatile market, there is a high probability that all assets in the account will be lost. Therefore, this margin method is useful for institutions and experienced users who are hedging existing positions and proceeding quantitative trading.

Not being able to switch mode when holding positions or having open orders causes a lot of trouble for traders who want to adjust the positions, and is becoming a pain point in the current derivatives market. To solve the problem, Huobi designed a unique cross margin mode, in which users could not only switch for another mode even when holding positions or having open orders but also trade swaps in two modes at the same time as long as the asset supports cross margin mode.

Moreover, the five USDT-margined swaps (BTC, ETH, LINK, LTC, and XRP) that are available for cross margin mode currently all support real-time settlement. After a position is closed, users could withdraw the realized profit (minus unrealized loss and occupied margin) in real-time without waiting until the settlement, which largely improved the utilization of funds.

On the basis of the above unique designs, Huobi cross margin mode also supports both a locked margin mechanism, which greatly reduces the position margin and improves asset utilization. Besides, Huobi also supports partial liquidation for cross margin mode to avoid the positions being liquidated at one time.

The benefit of a cross margin account is particularly useful in volatile markets that are witnessing extreme fluctuations, whereby the account equity and PnL could be shared by all positions though the predictability of margin requirements is difficult to gauge. This is especially useful for traders who implement long-term strategies.

The adding of cross margin mode enables traders to better tailor their portfolios to their unique preferences and strategies. Huobi also introduces the “VIP+1” policy and the "Deposit to Become a VIP" campaign with a very competitive transaction fee rate to reduce the transaction cost for its users.

Within 39 days after the launch of USDT-margined swaps, its trading volume is growing rapidly with a cumulative total of over $60.5 billion as of December 4th, 2020. With more choices and convenience provided, the introduction of cross margin mode will no doubt contribute more volume for the product and the entire crypto derivatives system.

Press release distributed by Media Pigeon on behalf of Pressat, on Dec 17, 2020. For more information subscribe and follow us.

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