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What is Crypto Futures Trading? - Beginner's Guide

Original:

<https://www.btcc.com/en-US/academy/crypto-basics/what-is-crypto-futures-trading-beginners-guide>

[Futures trading](#) is one of the most common and convenient ways to gain exposure to the [cryptocurrency](#) market. To help you better grasp the complexities of futures trading, we have provided the following. In what ways it can offer more favorable prospects than spot trading and options trading. Ability to open both long and short positions in several different types of digital currency. What you need to know is detailed below.

[Futures trading](#) is a way to speculate on the value of assets, including [cryptocurrencies](#), without really owning them. Like commodity or [stock](#) futures, cryptocurrency futures enable traders to wager on a digital currency's future price. Naturally, [Bitcoin futures](#) are the most widely traded cryptocurrency derivative.

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What is Crypto Futures Trading?

In contrast to spot trading, participants in futures trading for cryptocurrencies need not physically possess any of the underlying assets. Derivatives contracts, which are bought and sold instead, indicate the value of a cryptocurrency on a future date.

Futures trading enables investors to make predictions about a cryptocurrency's price movement. Speculators can "go long" to profit from an increase in price or "go short" to hedge against a decline.

Use of leverage is a major perk of trading futures. Due to the use of leverage, traders can increase their capital efficiency by not having to commit their full trading capital. It raises the stakes in terms of both potential profits and losses, so traders should proceed with prudence.

For individuals just starting out in the futures market, a leverage of 2x or 5x is generally accepted. In particular, for investors who plan to protect their holdings with crypto derivatives. For example, if an asset performs poorly or in the opposite direction of what is speculated, a futures deal that uses a certain amount of leverage to protect against this event can offset the loss.

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What to Consider in Crypto Futures Trading?

Margin Trading

Nowadays, most futures trading platforms offer margin trading, whose most important feature is leverage. Leverage allows traders to increase their potential returns, but the associated dangers are proportional to those returns. BTCC's perpetual contracts have a leverage of up to 100x, while Binance's go as high as 125x, while most cryptocurrency exchanges only go as high as 50x. Even though experienced traders can make money by trading with high leverage, there is always the chance that their position will be closed for a loss.

Newcomers to futures trading should not risk too much money on leverage, although a small amount of leverage could prove effective. The margin required to trade is based on the leverage chosen. If a trader uses 10x leverage, only 10% of his own money is at stake while the remaining 90% is borrowed. It comes either directly from the exchange or indirectly through dealers who lend money at a high interest rate.

Hedging

Crypto futures trading is a great way to protect your portfolio from the risk of a sudden drop in the value of cryptocurrencies or traditional assets. Bitcoin futures are the preferred hedging instrument of institutional investors. Since the futures contract has a set price for the expiration date, trading Bitcoin futures shields you from the steep drops in BTC price that can occur on the spot market.

Diversification

Cryptocurrency futures provide another avenue for portfolio diversification in addition to hedging. In the world of trading and investing, diversity is widely acknowledged as a top tool for keeping your capital safe. You can establish a diversified portfolio of futures contracts by opening numerous positions in Bitcoin(BTC), Ethereum(ETH), Chainlink (LINK), and many other tokens. You can reduce your exposure to a single asset's potential price fall in this way.

The Volatility of the Market

Understandably, the extreme volatility of cryptocurrencies and associated futures markets is a crucial consideration for traders. And while this is framed primarily as a threat, it actually opens up new possibilities. That's a big deal for day traders and other investors who focus on making quick profits off of little price changes. If we compare the cryptocurrency market to the forex or stock markets, it is still relatively modest. Consequently, whales and other events with widespread market impact can cause significant price swings in digital assets.

Date of Expiration

Imagine you engage in the trading of standard cryptocurrency futures with a cash settlement. You should keep an eye on the settlement date if this is the case, as this is when you will receive your cash or stablecoin upon contract settlement. A futures contract that is open at any time before its expiration date can be sold. As a result, you will either make a profit or a loss based on the fluctuation of the spot price.

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What is Futures Contract?

Futures contracts are derivatives, along with Contracts for Difference (CFDs), Options, and Swaps, all of which are a type of financial instrument used in the trading industry.

Futures contracts made sense at the start for a wide variety of commodities, including food, oil, and metals. But quickly they expanded beyond those initial motives to dominate the entire financial sector, crypto included. Most commodity price quotes displayed on financial websites today are for futures contracts, which typically have a monthly expiration date.

Futures contracts, in their simplest form, are agreements between two parties to buy or sell an asset, such as digital currency, on a specified date and at a specified price. The contract follows the price of a commodity, stock, or cryptocurrency. It is a wager on the direction of prices in the future.

To illustrate, let's say you believe the price of Bitcoin (BTC) will rise by the end of the month. In this case, you might want to open a long position on Bitcoin by purchasing a Bitcoin futures contract with a monthly expiration date. Contrarily, if you anticipate a rise in Bitcoin's value, you would place a long bet on the cryptocurrency. When the contract's end date arrives, the two parties involved in the transaction finalize the terms of their agreement.

Although it is required for a futures contract to have an end date, perpetual contracts are a type of cryptocurrency futures. The unique feature of perpetual contracts is that they never end. They function in the same way as regular futures but do not expire or settle.

A perpetual contract's price tracks the current value of a cryptocurrency and fluctuates very close to that value during trading. The funding rate, in which long and short traders make regular payments to each other based on the market situation, is the primary mechanism that allows for perpetual contracts to exist.

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A promotional banner for BTCC, a cryptocurrency futures exchange. The banner has a green background with a grid pattern. At the top center is the BTCC logo, which consists of a white 'X' shape followed by the letters 'BTCC' in white. Below the logo, the text 'Level up your VIP status for more benefits' is written in yellow, and 'BTCC - Your preferred crypto futures exchange' is written in white. At the bottom left, there is a button that says 'Download our app now' in white text on a dark green background. To the right of this button are two logos: the Apple App Store logo with the text 'Available on the App Store' and the Google Play logo with the text 'GET IT ON Google Play'. At the bottom right, there is a button that says 'Support fiat and crypto deposits' in white text on a dark green background. The banner also features several floating Bitcoin icons in the background.

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Types of Crypto Futures Contracts

Cryptocurrency investors can choose from a number of different futures contracts. Be sure to choose the appropriate futures exchange, as most platforms do not offer all of the listed types.

Standard Futures Contracts

Regular cryptocurrency futures include expiration and settlement, just like any other futures contract on a traditional market. In December 2017, CME Group and CBOE, both based in Chicago, were the first futures trading exchanges to offer Bitcoin futures contracts. Until the BTC price broke its all-time high of \$20,000 in 2020, this was one of many factors that drove the BTC price to a record high.

As can be seen in its Bitcoin Futures Calendar, CME currently offers several Bitcoin futures with varying maturity dates. At the time of expiration, all contracts are settled in U.S. dollars. And while CBOE has temporarily shelved Bitcoin futures contracts, the exchange promises to reinstate the product as demand for cryptocurrencies grows.

Yet, contrary to popular belief, some cryptocurrency markets do offer traditional futures contracts. Most of these exchanges, like BTCC, FTX, Deribit, and Binance, offer quarterly Bitcoin futures contracts that are typically traded in U.S. dollars. They are great for swing trading because they are typically settled every three months.

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Futures with Physical Delivery

Futures contracts for a specific amount of a cryptocurrency that are set to expire upon a certain date are not the only cryptocurrency futures contracts with an expiration. Bakkt, a company backed by New York Stock Exchange parent company Intercontinental Exchange (ICE), was the first to introduce them (NYSE). The only distinction between cryptocurrency futures and the aforementioned regular futures is that cryptocurrency is physically delivered at settlement.

Bakkt now offers only Bitcoin futures with physical delivery, meaning that it transfers Bitcoin at the expiration date to those who bought futures on the cryptocurrency. This method employs a cash-settled futures contract in an effort to promote Bitcoin circulation.

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Perpetual Contracts

There is a second type of cryptocurrency futures contracts that is gaining in popularity: perpetual contracts. Perpetual contracts gained popularity on BitMEX due to the lack of a fixed expiration date, and they were soon adopted by other major cryptocurrency exchanges such as BTCC, FTX, and Binance.

The primary mechanism that helps perpetual contracts keep as close to the spot price as possible is funding. There is a system of compensation between traders based on the value of their open positions at set times. Whoever pays the lower of the perpetual contract price or the spot price is the one who gets the money. Therefore, long traders compensate short traders when the funding rate is positive and vice versa when the funding rate is negative.

BTCC's perpetual contracts are traded for USDT and other stablecoins, and funding payments are processed every eight hours.

The crypto perpetual futures market has grown rapidly, but there is still room for improvement in the trading volume compared with conventional futures exchanges.

Trading volume for perpetual futures has slumped, but they have not been as affected by the large drop in crypto prices in 2022. The average daily volume of futures contracts remains between \$50 billion and \$200 billion, as reported by coinglass.

Crypto futures will continue to be an area with huge potential and will be hugely contested amongst the top exchanges as well as decentralized exchanges.

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Crypto Futures Trading: Pros and Cons

Futures on cryptocurrencies have exploded in popularity, and for good reason. Consider these benefits of crypto futures:

Pros

- **Convenient.** Trading futures is much more accessible to novice traders than trading actual cryptocurrencies, which necessitates both access to a liquid market and a secure digital wallet, to be successful. This is one reason why crypto futures trading volumes are typically twice as high as spot trading volumes.
- **Potential for more gain.** Leveraged cryptocurrency futures trading often results in larger profits. Bybit's maximum leverage setting of 100x allows traders to risk only \$10 to enter a \$1,000 transaction. While the potential rewards can be greater, you should also be aware of the increased dangers associated with applying leverage.
- **Trade tactics that can be adapted to changing conditions.** When compared to trading actual cryptocurrencies, crypto futures are far more amenable to the adoption of trading methods, especially during intraday trading. Also, there are no stoppers for shorting while

using cryptocurrency futures. As a result, you have more leeway to experiment with various trading techniques in order to get optimal results.

- **Borrowing Costs:** 0% Unlike perpetual futures, which are subject to a funding rate, futures prices are typically in contango, meaning that they are higher than current spot prices. Because of this, a cash and carry arbitrage opportunity arises, which is a hedging strategy that involves going long on the spot market and short on the futures market. When the futures price finally catches up to the spot market price on settlement day, investors can count on relatively risk-free returns regardless of the state of the market or its volatility.

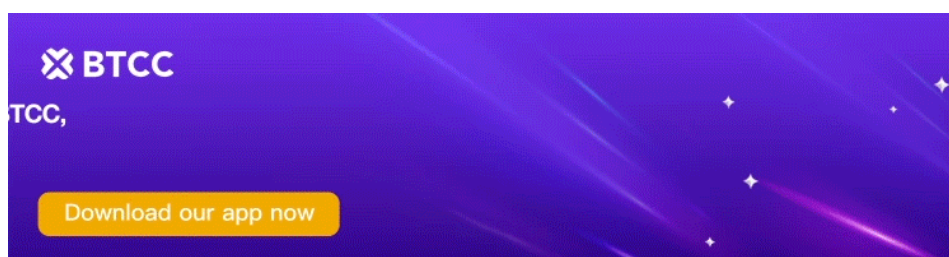
Cons

In general, some industry insiders have the opinion that the underlying crypto market is not developed enough to support a futures market. Some skeptics worry that Bitcoin's volatility will impact other futures markets. The majority of crypto futures platforms are not vulnerable to cyber assaults, unlike traditional crypto exchanges that keep customers' cryptocurrency holdings, and thus far, they have reported no major instances. With Bybit, for instance, futures trading is simple and quick.

However, novice traders should be aware of the dangers associated with the market's volatility, the market's 24-hour nature, poor futures trading tactics transplanted from more established exchanges, and leverage levels greater than are typically recommended.

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How and Where to Trade Crypto Futures?

Trading cryptocurrency futures is identical to other forms of trading, and the level of difficulty depends on the leverage chosen. When trading spot markets or other derivatives, such as CFDs or options, you should follow the majority of valid rules. The majority of the rules concern risk management and locating the optimal entry and exit points.

Here are the primary steps to begin trading crypto futures successfully:

- **Put some money aside;** one of the most important risk management rules is to never invest more than you can afford to lose. And unless we're talking about the kind of technical borrowing employed in margin trading, never borrow money to trade.
- **Dedicate time;** if you want to make cryptocurrency futures trading a rewarding endeavor, you shouldn't treat it like a hobby. Spend time learning about futures trading, identifying the best entry points, and keeping an eye on your open positions.
- **Trade using a demo account.** A demo account allows you to start trading with fake money. Before moving on to futures, it often imitates the spot price of Bitcoin or any other cryptocurrency. Try trading for free on Bybit's demo account [here](#).
- **Select a futures trading platform** since a crypto exchange's reputation is important. As a result, if you are just getting started, choose a trustworthy exchange and start small. Here you can trade crypto futures on BTCC was founded in June 2011 with the goal of making crypto trading reliable and accessible to everyone.

[BTCC](#) has supplied safe trading services with cutting-edge technology for the past 11 years. As the world's oldest crypto exchange, [BTCC](#) has always placed a great emphasis on enhancing every area of trade, seeking to establish a fair trading environment for all crypto enthusiasts worldwide.

We specialize in crypto futures contract trading, offering daily, weekly, quarterly and perpetual futures contracts. The maximum leverage offered by BTCC for daily futures contracts is 150x. The vast variety of futures offered by BTCC accommodates the trading habits and objectives of both novice and seasoned traders. We offer the Coin-margined futures. Users can trade futures using USDT or cryptos like BTC, ETH, and XRP. And Large orders of up to 300 BTC can be executed at the top price levels.

BTCC offers exclusive bonus for new users. Sign up and deposit on BTCC to get up to **10,055 USDT** in bonuses. Meet the deposit targets within 30 days after successful registration at BTCC, and you can enjoy the bonus of the corresponding target levels.

BTCC also provides many campaigns and you can participate to win exciting rewards. **Find out what campaigns are available now:** <https://www.btcc.com/en-US/promotions>.

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Conclusion

Futures markets for cryptocurrencies are preferred by both institutional and retail traders because of their lower transaction costs and security.

Crypto options, another sort of derivative, are not as widely used as cryptocurrency futures. The buyer of a call option or put option has the right, but not the duty, to purchase or sell the underlying asset at a specified price and time period.

Both derivatives allow investors to hedge against volatility risk and experiment with alternative trading methods, some of which may be more lucrative than traditional investing.

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