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Cryptocurrency Futures Trading: A Complete Guide for Beginners

Not sure how to start Cryptocurrency futures trading? Here is a complete guide for beginners with explanations, methods and risks! Trust me when I say, this is the only crypto futures trading guide you'll ever need.

Key Takeaways:

- Crypto futures give investors the opportunity to bet on the future price of a digital asset without having to actually own or handle it.
- This financial product offers more opportunities and potential to grow one's portfolio through the use of leverage.
- Futures trading also can help protect one's portfolio and serve as a hedge when investments are trending in the wrong direction.
- Futures trading features both benefits and risks. You should always do risk management and be cautious.

So what's so special about crypto futures trading? Before we dive into the step-by-step process of how it works, let's first quickly recap what crypto futures trading is.

What Is Crypto Futures Trading?

Crypto Futures are a type of financial derivative trading product. These are regulated trading contracts between two parties and involve an agreement to purchase or sell an underlying asset at a fixed price on a certain date. They are used for speculating on the "future" price of cryptocurrencies.

Thus, for Crypto futures, the price at which and the date on which you buy the asset is predetermined. Crypto futures allow investors to hedge against volatile markets and ensure they can purchase or sell a particular cryptocurrency at a set price in the future. If the asset increases in

price upon the time of the expiration of the futures contract, the trader is able to make a profit. However, if the price moves in the opposite direction a trader wishes, they may end up paying more than the market price for the cryptocurrency or selling it at a loss.

On the other hand, if the price of the asset declines, then the trader can choose to take a short position which would then result in them making a profit. The amount of profit that the trader makes will be calculated at the end of the expiry of the contract.

In some circumstances, instead of actually buying or selling a cryptocurrency like bitcoin directly, which involves setting up a crypto wallet and navigating through complicated exchanges, futures contracts allow investors to indirectly gain exposure to bitcoin and potentially profit from its price movements.

How Crypto Futures Trading Works

There are three main components to a crypto futures contract:

- **Expiration date:** This refers to the date when the futures contract must be settled. In other words, one party has to buy, and the other has to sell at the pre-agreed price. It's worth noting, however, that traders can sell on their contracts to other investors before the settlement date if they wish.
- **Units per contract:** This defines how much each contract is worth of the underlying asset and varies from platform to platform. For example, one CME bitcoin futures contract equals 5 bitcoins (denominated in U.S. dollars). One bitcoin futures contract on Deribit, however, equals 10 U.S. dollars worth of bitcoin.
- **Leverage:** To increase the potential gains a trader can make on their futures bet, exchanges allow users to borrow capital to increase their trading size. Again, leverage rates vary greatly between platforms. [BTCC](#) allows users to supercharge their trades by up to 150x, whereas FTX reduced its leverage rates from 100x to 20x.

Understanding Leverage in Futures

Leverage helps you take an "x" times position on your assets, which means that if you decide to take [100x crypto leverage](#), then you can open a position that is worth \$500,000 on a \$5,000 collateral. If the market plays in your favor, then you end up making 100x profits. However, if the market is not in your favor then you also stand a chance to lose equal proportions. Whenever you use leverage, remember that both your profits and losses can be greatly amplified depending on the amount of leverage that you take.

Before we dive deeper there's another crucial point that we must understand about what collateral we use for buying our crypto futures contracts. If you are using a volatile crypto asset as the collateral (such as Bitcoin or Ethereum) then there are chances that your collateral will lose its value in the future due to any sudden market change. If that happens, your position will be closed and your assets will be liquidated. Hence, you are advised to use a stablecoin as the base collateral as that will make sure that you are able to retain your position long-term.

Where Can I Trade Bitcoin And Crypto Futures?

Over the last five years, the popularity of crypto-based futures products has grown exponentially, and now there is now a wide range of traditional and crypto-native platforms where you can begin trading crypto futures.

Leading examples of platforms that provide this type of trading include:

[BTCC](#)

BitMEX

Bybit

FTX

Kraken

What's the Differences Between Futures Contracts And Perpetual Swap Contracts?

If you've been in the crypto industry for any length of time, you may have come across the term "perpetual swap contract."

Perpetual swaps, or "perps," operate in a very similar fashion to futures contracts in that they allow investors to purchase or sell an underlying asset at a future date, but with one key difference - perpetual swap contracts have no expiration date.

This means a trader can keep their contract to buy or sell open as long as they want - provided they keep up with margin payments - until they're ready to settle them or sell them on to another trader.

Because these types of trading contracts have no expiration date, they require a special mechanism to ensure the contract price tracks the spot price (current market price) as close as it can. This system is known as a “perpetual swap funding rate” and essentially involves long (buyers) or short (sellers) traders paying the opposite party a periodic fee, depending on whether the contract’s price is above or below the market price.

If the market price is lower than the perp futures price, long traders will be required to pay a fee to short traders to discourage more traders going long. Conversely, if the market price is higher than the perps futures price, short traders will pay a fee to long traders.

Perp funding rates can often be a useful metric for gauging market sentiment around a particular asset.

Benefits And Potential Risks of Crypto Futures Trading

Despite the many benefits of crypto trading futures, such as indirect exposure and trading with leveraged to boost potential profits, there are also a number of serious risks associated with it that new investors need to be mindful of. There is an old adage that goes for margin trading – your wins are certainly amplified but so are your losses.

One of the biggest benefits of crypto trading futures is that you are able to speculate on the prices of cryptocurrencies and open positions accordingly. Futures trading is a go-to option for traders who can speculate on the future movement of a crypto asset. If the price of the asset does increase, then you stand to make a profit.

However, at the same time, it is also quite risky because it requires you to take a margin. And if you use margin, then you can potentially make much higher returns off of your initial capital. And you can lose the same huge amount of capital as well. That is why it is often recommended that futures should only be traded by those who have a much-informed understanding of the market that they are trading in.

Conclusion

For the most part, many traders will find crypto futures trading to be exciting. Unlike spot trading, futures trading offers strategic advantages and allows you to maximize profits. Futures trades can be profitable if you have the right knowledge and risk management strategies to avoid huge losses. Before trading crypto futures, you should be aware of both the benefits and risks, develop a proper strategy and perform due diligence.