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What Are Crypto Futures? Everything You Need to Know

Quick Take

- Crypto futures allow investors to speculate on a cryptocurrency's future price without actually purchasing it.
 - Investors can choose from a variety of exchanges to trade crypto futures. Some are regulated and some are unregulated.
 - Cryptocurrency is known for its price volatility, which makes investing in cryptocurrency futures risky.
 - You can start crypto futures trading at brokerages approved to trade futures and options.
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What Are Crypto Futures?

Crypto futures are contracts between two investors that bet on the future price of a cryptocurrency. They allow investors to gain exposure to select cryptocurrencies without buying them. Crypto futures are similar to standard futures contracts for commodities or stocks, as they allow you to bet on the price trajectory of an underlying asset.

The first [Bitcoin](#) futures contracts were listed on Cboe in early December 2017 but soon discontinued them. The Chicago Mercantile Exchange (CME) introduced Bitcoin futures contracts in December 2017 as well. The contracts trade on the Globex electronic trading platform, are settled in cash. Bitcoin and Ether futures are based on the CME CF Bitcoin Reference Rate and the CME CF Ether Reference Rate.

What is Crypto Futures Contract?

Futures contracts of any underlying asset are derivatives of that asset. These contracts are bought and sold between two commodities investors, and they speculate about that asset's price at a specific date in the future.

The contracts have a specific number of units, pricing, marginal requirements, and settlement methods that investors must meet.

Below are the contract details for Bitcoin futures at CME:

- **Contract unit:** 5 bitcoin, as defined by the CME CF Bitcoin Reference Rate
- **Price quotation:** USD
- **Trading hours:** Sunday–Friday, 5 p.m.– 4 p.m.
- **Product code:** BTC
- **Margin requirements:** 50% cash of the contract amount
- **Listed contracts:** Contracts listed for six consecutive months and two additional Decembers
- **Settlement method:** Financially settled

Contract details for ETH futures offered by CME:

- **Contract unit:** 50 ether, as defined by the CME CF Ether Reference Rate
- **Price quotation:** USD
- **Trading hours:** Sunday–Friday, 5 p.m.– 4 p.m.
- **Product code:** ETH
- **Margin requirements:** 60% cash of the contract amount
- **Listed contracts:** Contracts listed for six consecutive months and two additional Decembers
- **Settlement method:** Financially settled

How do Cryptocurrency Futures Work on Regulated Exchanges?

Consider the following example for a CME Group Bitcoin futures contract. Suppose an investor purchases two Bitcoin futures contracts totaling 10 bitcoin. The price of a single bitcoin when the futures contract was purchased was \$5,000 each, totaling \$50,000 for both futures contracts. The margin requirement for Bitcoin futures trading at CME is 50% of the contract amount, meaning that the investor has to deposit \$25,000 as margin. They can finance the rest of the contract purchase by using leverage.

The contract's value varies based on the underlying asset's price (i.e., Bitcoin). CME uses the Bitcoin Reference Rate, which is the volume-weighted average price for Bitcoin sourced from multiple exchanges and is calculated daily between 3 p.m. and 4 p.m. London time.

Depending on Bitcoin's price fluctuations, the investor can either hold onto the futures contracts or sell them to another party. At the end of their contracts' duration, the investor has the option to either roll them over to new ones or let them expire and collect the cash settlement due.

The steps to conduct trade in Bitcoin futures are the same as those for a regular futures contract. You begin by setting up an account with the brokerage or exchange where you plan to trade. Once your account is approved, you will need another approval to start futures trading from the trading service provider. Generally, the latter approval is a function of funding requirements and the account holder's experience with derivatives trading.

The same criteria also play an essential role in determining leverage and margin amounts for your trade. Futures trading makes heavy use of leverage to execute trades. Government agencies regulate the maximum leverage amount allowed at regulated exchanges and trading venues.

How do Cryptocurrency Futures Work on Unregulated Exchanges?

The story is a different one at unregulated exchanges. They have the freedom to allow excessive risk-taking for their trades. For example, Binance offered leverage of up to 125 times the trading amount when it launched futures trading on its platform in 2019. That figure was revised to 20 times the trading amount in July 2021.

Remember that higher leverage amounts translate to more volatility for your trade. Thus, the promise of high profits is offset by the risk of losing significant amounts of money.

The amount you can trade depends on the margin amount available to you. Margin is the minimum collateral you must have in your account to execute trades. The higher the amount of the trade, the greater the margin amount required by the broker or exchange to complete the trade.

Bitcoin's risky and volatile nature means that the margin amounts required for trading their futures are generally higher than those for other commodities and assets. CME Bitcoin futures trading began with a 100% margin, meaning traders had to put up the trade's total amount as margin.

As of January 2023, the exchange calls for a 50% margin for Bitcoin and 60% for Ether futures trading. Brokerages offer futures products from many companies, but they can have different margin requirements, one that is over and above the amount charged by the provider.

For example, CME has a base margin requirement for Bitcoin futures; brokerages like TD Ameritrade, which offers CME Bitcoin futures trading as part of their product suite, can set margin rates on top of the base rate set by the exchange.

Top Bitcoin Futures Trading Platforms

The Cboe Global Markets (Cboe) was the first American exchange to offer Bitcoin futures contracts on Dec. 10, 2017. CME followed a week later. According to data from crypto analytics firm Skew.com, the most prominent Bitcoin futures trading platforms in January 2023 were:

- **Binance:** The world's biggest cryptocurrency exchange by trading volume also accounted for a hefty \$4.32 billion of the total trading volume in Bitcoin futures.
- **BTCC:** Based in the United Kingdom, [BTCC](#) has over 10 years of stable and secure operating history, making it one of the best Crypto future exchanges. Its huge varieties of futures suit the trading habits and goals of beginners and experienced traders.
- **Bybit:** Started by a derivatives trading firm in 2018, and accounts for \$2.30 billion of total Bitcoin futures trading volume.
- **CME:** Headquartered in the United States, CME accounts for \$2.24 billion of the total trading volume.
- **OKX:** While it may not be as well-known as Coinbase Inc. (COIN) to U.S. audiences, OKX ranks among the world's biggest cryptocurrency exchanges. Due to regulatory compliance reasons, OKX is not available to U.S. customers.

Main Advantages of Bitcoin Futures Trading

The main advantage of trading Bitcoin futures contracts is that they offer regulated exposure to cryptocurrencies. In a volatile ecosystem with wild price swings, that is a significant point. Bitcoin futures contracts at CME are regulated by the Commodities Futures Trading Commission (CFTC). This offers a measure of confidence and recourse to institutional investors, who comprise a majority of traders in such contracts.

Simplicity

Bitcoin futures also simplify the process of investing in Bitcoin. The investor does not need to create a Bitcoin wallet or put money into custody solutions for storage and security while trading because there is no physical Bitcoin exchange. An added benefit of cash-settled contracts is eliminating the risk of physical ownership of a volatile asset.

Safer Than Owning Crypto

Bitcoin futures contracts are relatively safer for dabbling in Bitcoin without getting burnt because futures contracts have position and price limits that enable investors to curtail their risk exposure to the asset class.

Position Limits

Position limits differ between exchanges. For example, CME allows a maximum of 2,000 front-month futures contracts and 5,000 contracts across different maturities. Binance, the world's biggest cryptocurrency exchange by trading volume, has a position limit adjustment feature that enables manual reconfiguration of limits based on past trading history and margin amounts.

The further out the futures contract expiration date is, the higher the account maintenance amount will generally be.

Special Considerations in Trading Crypto Futures

The number of venues offering cryptocurrency futures trading is limited, as are the numbers of participants and trading volumes compared to other commodities. This means that cryptocurrency futures trading has its own set of peculiarities.

Trading Volume

Trading volumes in cryptocurrency futures can mimic those of its spot markets counterpart. Price fluctuations can also be high, especially during volatile stretches regarding price. During these times, cryptocurrency futures may appear to follow spot market prices or trade at a significant premium or discount to spot prices.

This means that Bitcoin futures may not offer sufficient protection against the volatility of the underlying futures market. The SEC warned investors about the pitfalls of trading cryptocurrency futures in June 2021. "Among other things, investors should understand that Bitcoin, including gaining exposure through the Bitcoin futures market, is a highly speculative investment."

Most Crypto Exchanges Are Unregulated

Except for select trading venues, such as CME, cryptocurrency futures trading occurs mainly on exchanges outside the purview of regulation. Among the world's biggest platforms for Bitcoin futures, only CME is regulated by the CFTC. Binance has opened U.S. subsidiaries only recently.

Cryptocurrency Options

Cryptocurrency options are a relatively new development. CME introduced trading in Bitcoin options in Jan. 2020 and Ether futures options in March 2022.

Cryptocurrency options work like standard options contracts in that they are a right, and not an obligation, to buy cryptocurrency at a set price on a future date. In this case, the asset is represented by cryptocurrency futures contracts traded at the CME, with a single options contract equivalent to a single futures contract consisting of 5 BTC or 50 ETH. Options contracts for six consecutive months are available at a time at CME. They expire monthly on set dates, with two additional December contract months.

Traders can buy call options if they think the price of Bitcoin will go up. Alternately, a put option is a bearish bet that the cryptocurrency's price will decline. The gains and losses in both cases are different. In a call option, gains may be unlimited (because the price can go up indefinitely), while the losses are limited to the premium paid for the contract. In a put option, losses may be unlimited (because the price may go down to zero), while the gains are limited to the premium paid for the options contract.

Similarly, the volatility of Bitcoin's price makes it a risky asset for options trading. The high implied volatility of option contracts means that the price of individual bitcoin options is also high. High prices can magnify losses for traders.

FAQs

Where to short a cryptocurrency in the u.s.?

You can short Bitcoin and Ethereum on the CME or any crypto exchanges authorized in the U.S.

Are cryptocurrency futures legit in the U.S.?

Crypto futures are legal in the U.S. and can be traded on authorized crypto exchanges or the CME using specific brokers. You can trade crypto futures options with brokers such as Tradestation, Interactive Brokers, Ironbeam, or Edge Clear.

What is futures expiration date for cryptocurrencies?

Bitcoin and Ethereum futures expire on the last Friday of each month at 4:00 pm London time.

Apart from crypto trading, BTCC also launched tokenized futures this year, allowing users to trade stocks and commodities futures with USDT as the margin.

The process of trading futures with BTCC begins with registration and log in. New customers can now sign up [here](#) to get a welcome bonus of 10USDT, and complete the Know Your Customer verification process to access all BTCC's features and BTCC discount. Once verified, you can explore the deposit bonus and start your crypto trading now.

[**Sign up for BTCC now and claim special deposit bonus!**](#)

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