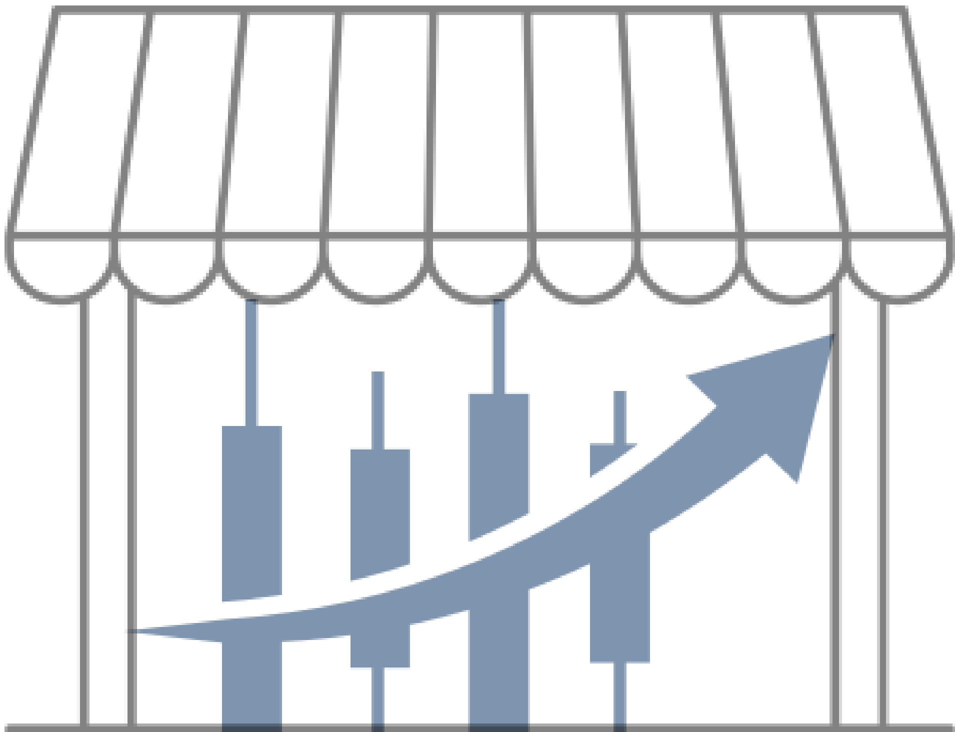
HongLeong Investment Bank

HL e Futures

FUTURES LINGO

MARK TO MARKET



Published date: February 2025

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WHAT IS MARK TO MARKET?

Definition

It is the process of valuing a futures contract at its current market price.

Importance

This is to ensure all open positions are revalued daily, reflecting the current price of your investment portfolio.

THE USE OF MARK TO MARKET

Transparency

Provides clear and accurate information about the value of each position.

Risk Management

Allows investors to analyse the potential exposure and risk by showing the actual market value.

Financial Stability

Prevents overtrading that could build up huge unrealized losses, thus leading to financial stability.

Margin Efficiency

Helps traders manage margin requirements more effectively, reducing the risk of margin calls.

EXAMPLES

You think the price of Crude Palm Oil Futures (FCPO) will rise. You deposit RM 8,500 into your trading account and buy 1 lot of FCPO today.

Scenario	Profit/Loss	Mark to Market Net Cash Balance
At the end of the trading day, the price of FCPO increase from 4,000 to 4,100 and you earned an unrealised profit of 2,500. Your net cash balance is 7,000.	2,500 profit	**11,000** (8,500 + 2,500)
On the next trading day, the FCPO dropped from 4,100 to 3,900. You make a loss of 5,000.	5,000 loss	**6,000** (11,000 - 5,000)

Note: 1 pt = RM 25

Source: CME Group, Financial Strategist, Investopedia, Markets.com, Wall Street Prep