

How to Trade Crypto Futures: A Comprehensive Guide

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Introduction

Crypto futures trading has become extremely popular in recent years, with volumes exceeding \$58.5 trillion in 2024—more than double the 2023 figure. Futures allow traders to speculate on digital assets without needing to own the underlying assets. This article covers how futures work, their benefits and risks, and strategies for trading them effectively. Understanding these instruments is essential for safely incorporating them into your overall trading strategy.

What Are Crypto Futures?

Crypto futures allow traders to speculate on the future price of digital currencies, enabling them to profit when the price of an asset goes up or down. A futures contract involves an agreement between two parties to buy or sell an asset at a set price on a predetermined future date. The price of a futures contract is influenced by the spot price of the underlying asset, but traders don't need to own the cryptocurrency to participate. U.S. traders can now access crypto futures on CFTC-regulated platforms like Kraken.

Perpetual vs Expiry Futures

Unlike traditional futures contracts which have a set expiration date, perpetual futures can be held indefinitely, offering greater flexibility and higher liquidity. These contracts are particularly popular in crypto markets because they are easy to grasp and allow traders to open a position and keep it open for as long as they wish, provided they maintain the necessary margin. Perpetual futures are similar to spot trading but with the added benefit of leverage. Expiry futures have specific settlement dates (monthly, quarterly) and are used more for hedging strategies.

Understanding Leverage in Futures

Leverage magnifies both gains and losses. Using leverage increases the size of your position relative to your collateral. While this allows for higher potential profits, even small price movements against your position can lead to significant losses. Margin level is

critical—it's the ratio of your equity to your used margin. Keeping your margin level above the maintenance requirement is essential to avoid margin calls or forced liquidation. If the market moves against your leveraged position and equity falls below maintenance margin, Kraken may liquidate your position to prevent further losses.

Common Use Cases for Futures

The most common use of futures contracts is speculative trading. Traders can enter long positions (betting the price will rise) or short positions (betting the price will fall). Leverage enables traders to take advantage of the inherent volatility in cryptocurrency markets. Beyond speculation, futures are valuable for hedging existing spot positions. If you hold Bitcoin and fear a short-term price decline, you can short Bitcoin futures to offset potential losses. This way, gains from futures offset losses from your spot holdings.

Key Futures Trading Strategies

Successful futures traders employ various strategies: Trend following where you identify and ride major market trends using technical analysis, Range trading for sideways markets by buying support and selling resistance, Breakout trading by entering positions when price breaks key levels, Arbitrage between spot and futures prices when funding rates create opportunities, and Hedging to protect existing portfolios. Each strategy requires different skills, timeframes, and risk management approaches.

Funding Rates in Perpetual Futures

Perpetual futures use funding rates to keep the contract price aligned with the spot price. When the futures price trades at a premium to spot, long positions pay shorts (positive funding). When it trades at a discount, shorts pay longs (negative funding). These payments occur every 8 hours typically. Funding rates can be a significant cost or revenue source depending on your position and market conditions. Traders sometimes take positions specifically to profit from funding arbitrage.

Risk Management for Futures Trading

Futures trading requires stringent risk management due to leverage amplification. Key practices include: Never risk more than 2-3% of your capital on a single trade, always use stop-loss orders at reasonable levels beyond recent structure, avoid excessive leverage—5-10x is sufficient for most traders, understand liquidation price and keep it far from current price, monitor positions regularly especially during volatile periods, and maintain adequate margin buffer to avoid forced liquidation. The Equity Protection Process (EPP) at Kraken helps prevent negative balances.

Order Types for Futures

Understanding order types is crucial for futures trading: Market orders execute immediately at best available price, Limit orders set specific entry/exit prices, Stop-loss

orders automatically exit when price hits a trigger, Take-profit orders lock in gains at target prices, Trailing stops move with favorable price action, and Post-only orders ensure you pay maker fees not taker fees. Advanced traders combine multiple order types to create sophisticated risk management systems. Each exchange may have slight variations in order execution.

Getting Started with Kraken Futures

To begin trading futures on Kraken: Verify your account to Intermediate or Pro level, fund your derivatives wallet with acceptable collateral currencies, familiarize yourself with the platform using the demo environment, start with small position sizes to understand mechanics, focus on major pairs like BTC/USD and ETH/USD initially, and gradually increase complexity as you gain experience. Take advantage of Kraken's educational resources and support documentation. Risk only what you can afford to lose.

Conclusion

Crypto futures offer powerful tools for speculation, hedging, and portfolio management. With proper understanding and risk management, they can significantly enhance trading strategies. However, leverage makes futures trading higher risk than spot trading. Success requires education, practice, discipline, and emotional control. Start small, use the demo platform, develop a trading plan, and never trade more than you can afford to lose. With the right approach, futures can be valuable additions to your cryptocurrency trading toolkit.

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