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What is Floating PnL & Loss in Trading? And how does it impact your trading?

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Floating PnL (Profit and Loss) refers to the unrealized profit or loss of an open trading position. It is calculated based on the difference between the entry price and the current market price of the asset, multiplied by the position size.

Floating PnL = **(Entry Price - Current Market Price)** x Pip value x Position Size

Here's an example:

You placed a **SELL** trade of 3 lots on EURUSD at a price of 1.10451. The current market price is now 1.10363. And the Pip value for EURUSD is \$10.

Now, here's how to calculate the Floating PnL:

$$\begin{aligned}\text{Floating PnL} &= (1.10451 - 1.10363) \times 10 \times 3 \\ &= (8.8 \text{ Pips} \times \$10 \times 3 \text{ Lots}) \\ &= \$264\end{aligned}$$

Note:

1. The pip difference will come out in Pipettes, you will need to convert it in Pip. For that divide the value by 10.
2. Pip value may differ based on the Symbol. Find the pip value according to the symbols [here](#).

Why is your Floating PnL negative even though the market is moving in your favor?

Your Floating PnL might still be negative due to factors such as the spread (difference between bid and ask prices) or overnight financing charges (swap rates) that are applied to open positions.

To know more about Bid and Ask price, kindly have a look at this [blog](#).

Does Floating PnL affect your margin level?

Yes, Floating PnL directly affects your margin level. A significant negative Floating PnL can reduce your equity, potentially leading to a lack of availability of free margin. If the margin level falls below a certain threshold, you might experience a stopout, where the trades using the most margin will be closed to restore the margin.

How does Floating PnL impact your trading?

Floating PnL affects your equity, which is the total value of your account. Positive Floating PnL increases your equity, while negative Floating PnL decreases it. However, it does not affect your account balance until the position is closed.

Now, let's explore & see practically how it can affect your prop trading journey:

For instance, If you place a trade on XAUUSD, it's crucial to understand the risks involved with it, especially when trading without a Stop Loss (SL). Trading without an SL can lead to significant losses.

Examples:

Scenario 1 : Trading XAUUSD: Market Moves Against You

In a **BUY** trade, if you open XAUUSD at a price of 2503.72 and the current market price is 2501.80, you would incur a floating loss.

Calculation:

$$\begin{aligned}\text{Floating PnL} &= (2503.72 - 2501.80) \times 10 \times 2 \\ &= (-19.2 \text{ Pips} \times \$10 \times 2.35 \text{ Lots}) \\ &= -\$384\end{aligned}$$

Outcome: Your floating loss is \$384.

Potential Risks:

Without a Stop Loss, the trade remains open regardless of how far the market moves against you.

Let's explore a situation where the market moves significantly against your position:

Scenario 2: Further Market Loss

In a **BUY** trade, the opening price of XAUUSD is 2503.72. Now, if the current market price is 2500.51, you would incur a loss.

Calculation:

$$\begin{aligned}\text{Floating PnL} &= (2503.72 - 2500.51) \times 10 \times 2 \\ &= (-32.1 \text{Pips} \times \$10 \times 2.35 \text{Lots}) \\ &= -\$754.35\end{aligned}$$

Outcome: Your floating loss is \$754.35.

You might think that avoiding a Stop Loss (SL) could lead to a temporary negative PnL, but eventually, the trade will turn into profit. However, if the market moves significantly against the trade, your account could be breached before it has the chance to recover and reach a positive PnL.

For instance, if you have a 15k Evaluation Account, the Daily Loss Limit is at 5%. This means that if you lose more than \$750 in a single day, your account could breach the Daily Loss Limit.

The following image shows a visual representation of how floating loss can impact your prop trading journey:

Floating PnL



Managing your Floating PnL and understanding the implications of market movements are crucial components of successful trading, especially within a prop trading environment. To safeguard your account and ensure long-term success, it's essential to use risk management tools.

Additionally, keeping a close eye on your Floating PnL is vital. Monitoring your Floating PnL allows you to stay informed about the current state of your trades and make timely decisions to protect your capital.

You can avoid unnecessary risks and maintain a healthy trading account. Always prioritize risk management strategies to navigate the challenges of trading and optimize your performance on your prop trading journey.

Is it mandatory to use Stop-Loss (SL) for all trades? >

What are the Restricted/Prohibited Trading Strategies? >

What is the pip or point value in FundedNext? >

Do you offer any calculators? >

How to calculate Margin Utilization? >

Did this answer your question?



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