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# How to calculate Margin Utilization?

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## What is margin?

Margin is the fund required to **open and maintain a position** in the trading account. It acts as a security deposit to cover potential losses for the running positions. Using margin means **trading with leverage**, which can increase both risk and potential returns. It's vital to maintain a healthy margin level, which helps traders manage these risks more effectively and stay secure in the market.

## Example of Used Margin:

You're trading 1.50 lots of AUDUSD using leverage of 1:30 with an account balance of \$5,000. One lot is equivalent to 100,000 units, and the current price of AUDUSD is 0.62982. Let's calculate the used margin for this trade.

- **Trade Size:** 1.50 lots
- **Lot Size:** 100,000 units per lot
- **Total Unit:**  $1.50 \times 100,000 = 150,000$
- **Current Price:** 0.62982
- **Position Size:**  $(\text{Total Units} \times \text{Current Price}) = 150,000 \times 0.62982 = \$94,473$
- **Margin Required:**  $(\text{Position size}/\text{Leverage}) = \$94,473/30 = \$3,149.10$
- **Available Funds:** \$5,000

Here as you can see, opening 1.50 lots would use \$3,149.10 nearly consuming your total balance. And this scenario actually demonstrates how easily you can blow up your account.

## What is Margin Utilization?

**Margin utilization** is the percentage of margin used from your currently available free margin. It helps you understand how much of your trading capital is being used in active trades and how much of it is available to open new positions.

A higher margin utilization means most of your capital is already in use, leaving little flexibility to manage unexpected market movements or open new trades. Keeping this percentage balanced is crucial to avoid margin calls and forced liquidations.

## How is Margin Utilization Calculated?

Margin Utilization is calculated using the following formula:



# How to Calculate It?

The formula to calculate Margin Utilization is:

$$\text{Margin Utilization (\%)} = \left( \frac{\text{Used Margin}}{\text{Total Margin Available}} \right) \times 100$$

- **Used Margin:** The amount of margin used for your open trades.
- **Total Margin Available:** The equity in your account that is available for trading.

For example, if your account equity is \$10,000 and your used margin is \$2,000, your margin utilization would be:

$$\left( \frac{2000}{10000} \right) \times 100 = 20\%$$

This means that 20% of your margin is currently being utilized.

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## Why is Margin Utilization Important and How Does Leverage Affect It?

Margin utilization is a key risk management measure that helps traders monitor their available margin and how much of it is being used. If it gets too high, you risk facing a **margin call** or having your positions **automatically closed** if the market moves against you.

Leverage also directly impacts margin utilization.

- **Higher leverage** lowers the margin required to open a position, allowing traders to trade larger volumes with less capital. However, it's important to manage risk properly, as losses can also be larger if the market moves against you.
- **Lower leverage** means a trader needs more margin to open a trade, reducing the lot size they can afford. While this helps manage risk effectively, it also encourages a more strategic approach to trade selection.

Maintaining a balanced margin utilization level ensures greater flexibility while keeping risk under control. Traders can optimize their trading strategy and reduce unnecessary risks by managing their margin utilization and leverage wisely.

## Effective Margin Utilization for Optimal Risk Management

Maintaining margin utilization below 20% is a safe strategy, particularly effective when used alongside stop-loss orders to limit potential losses. This method serves as an extra safeguard,

enabling effective management of market fluctuations and ensuring compliance with the trading rules and guidelines of FundedNext. Keeping margin use low not only helps in managing personal trading risks but also supports the firm's operational stability, protecting both the trader and the firm from excessive financial risks.

### Example:

Imagine you start with \$50,000 in your FundedNext account. By choosing to use just \$5,000—or 10% of your funds—for trading, you're keeping most of your money safe. This \$45,000 left untouched acts as a buffer, protecting you from unexpected market downturns. It also means you have plenty of funds available to take on new trading opportunities without risking all your capital at once. This strategy keeps your risk low while allowing room for potential profit, making it easier for new traders to manage their funds safely.

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