

Mark-to-market

A balancing act

Changing with the times

Mark-to-market is the process used to price futures contracts at the end of every trading day. Made to accounts with open futures positions, this cash adjustment reflects the day's profit or loss, and is based on the settlement price of the product. The settlement price is determined by the exchange during the settlement period, which happens once daily and differs by product.

Since mark-to-market adjustments affect the cash balance in a futures account, they also affect whether the account maintains the margin requirement needed to continue holding an open position.

Helpful hint: Options on futures contracts are not affected by mark-to-market settlements; however, they do have a settlement of their own.

Sometimes you're up, sometimes you're down

Now that you know how the mark-to-market process works, let's see it in action. Below are three examples of how it can play out and how the cash adjustment would look on your thinkorswim® platform.

Let's say you're long one March 2019 light sweet crude oil futures contract (/CLH19), which you held from the previous day's close. The contract settled down \$0.90 to \$53.66. Since you're long and crude oil settled lower, you will have a mark-to-market loss in your account of \$900 because one crude oil contract represents 1,000 barrels of crude oil.

2/5/19	16:00:00	ADJ	..	/CLH19:XNYM mark to market at 56.66 official settlement price	-900.00	3,672.46
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For illustrative purposes only. Not a recommendation.

Now let's say you're long one March 2019 E-mini S&P 500 Index future (/ESH19) at a price of \$2,727.50. The official settlement price for /ESH19 on that date was \$2,744.80. Since you went long at a price of \$2,727.50, you have realized a mark-to-market profit of \$865.00, because every point in /ES is worth \$50. That means your account is credited \$865.00, as shown below.

2/12/19	2/12/19	08:34:39	TRD	2062174266	BOT +1 /ESH19:XCME @2727.50	..		
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If you continue to hold a position every day through the close, there will be a mark-to-market gain or loss every market day, based on a comparison of the previous day's settlement to the current day's settlement. The example below shows mark-to-market gains and losses over a period of three days—a gain of \$240 on February 13, a loss of \$310 on February 14, and a gain of \$1,685 on February 15.

2/12/19	08:34:39	TRD	2062174266	BOT +1/ESH19:XCME @2727.50			..
2/12/19	16:00:00	ADJ	..	/ESH19:XCME mark to market at 2744.80 official settlement price	865.00
2/13/19	16:00:00	ADJ	..	/ESH19:XCME mark to market at 2749.60 official settlement price	240.00
2/14/19	16:00:00	ADJ	..	/ESH19:XCME mark to market at 2746.40 official settlement price	-310.00
2/15/19	16:00:00	ADJ	..	/ESH19:XCME mark to market at 2777.10 official settlement price	1,685.00

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The mark-to-market process of gain or loss will continue until the position is closed and no more positions are held at the close of trading. Once you close out the position, all of the mark-to-market cash adjustments, as well as any cash credit or debit you receive from closing your position, can be added together to calculate your overall profit or loss on the trade (excluding any transaction costs).

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