ReadySetCrypto Futures Masterclass

READYSETCRYPTO

Module Eight: PrimeXBT Futures

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Trading PrimeXBT Futures

PrimeXBT is a relatively new vendor to the "crypto futures" space, releasing their production client to the marketplace in February 2019. It is what I call a "Synthetic" futures broker, with each contract being synthetically derived in a proprietary manner by their technology, and is serviced on the back-end through connections to 12 separate spot brokers.

If you don't know what that means, don't worry; PrimeXBT is one of the easiest-to-use futures brokers, and might be a good fit for someone just starting out with crypto futures.

Figure 1

As you can see in this screen shot, Prime currently trades five different crypto currency pairs, all vs. the USD:
BTC, ETH, LTC, EOS, and XRP.

As you'll see, there are some unique characteristics when we trade with this broker, and it's important that we choose our strategies carefully when we trade them to ensure that we're using the right broker for our chosen approach.

Please understand that this guide/module is not meant to be an exhaustive treatment of ALL the features of PrimeXBT, but more of a quick "Cliff's Notes" series of features that check the boxes to get you up to speed quickly.

Please consult what little documentation that you can find with this broker, or reach out to their customer service with specific questions.

PrimeXBT Trading Contract Details

Before you consider trading with PrimeXBT, you should carefully read their Terms and Conditions, which you can find by navigating to the bottom of their primexbt.com home page and looking for the "terms of use" link. You will also be required to checkbox that you have read this document before you open an account with them.

Here are some basics of PrimeXBT:

What is the Leverage per Contract?

It uses a fixed leverage of 100:1. You cannot modify this, and the leverage will somewhat scale down depending on the quantity of the underlying coin that you leverage against, which is your only position-sizing variable.

To see the leverage schedule by coin, see https://primexbt.com/fees

Where Can You Trade It?

You can only trade PrimeXBT on their web interface at primexbt.com. At the time of this writing, there was no mobile app interface.

What Days/Hours does it Trade?

Trading of these contracts is essentially available 24x7, however keep in mind their performance disclaimer:

- *It is our responsibility to maintain an orderly market and as such we may at our own discretion halt trading on the Website due to market disruption or other relevant external events. We exclude all liability for any claimed losses or profits lost as a result of us halting trading.*

Are There Any Biases to Short vs. Long?

I have not been able to detect any bias against opening short positions. There is no short interest charged against selling to open a position, which is good news.

What are the Margin Costs?

PrimeXBT uses a fixed leverage of 100:1, so the margin cost to a position is based on how many of the underlying "coin" that you peg the position to.

For instance, let's say that BTC is currently $4000 and you want to size your trade to carry the same gains as a 1BTC spot position. Your initial margin would therefore be $4000/100, or $40. Yes, you could open a position with only $40 in your account with those conditions, but you would never want to do that as you would be liquidated on the first negative tick against you.

The full margin schedule is available here: https://primexbt.com/fees

What Underlying Crypto Assets are Traded?

BTC, ETH, XRP, LTC, and EOS.

What Sovereign Countries May Trade PrimeXBT?

Here's the rub; there is no KYC so you can literally sign up an account within 40 seconds, but you do so at your own risk. First off, here are the country-of-origin restrictions:

- *that trading access to or holding positions in Prime XBT Trading Services Ltd. is prohibited for any person that is located in or a resident of the United States of America, Canada, Seychelles and countries or territories or individuals under the sanctions of the United Nations or the European Union (the list is available at: https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-08-04.pdf)., or any other jurisdiction where the services offered by Prime XBT Trading Services Ltd. are restricted. If it is determined that any Prime XBT Trading Services Ltd. trading participant has given false representations as to their location or place of residence, Prime XBT Trading Services Ltd. reserves the right to close any of their accounts immediately and to liquidate any open positions.*

Sure, there are well-known methods of circumventing this regulation, however keep in mind that there are phrases in the Terms and Conditions which you might not want to tangle with:

- *By using this service you accept that Prime XBT Trading Services Ltd. reserves the right to liquidate any trades at any time regardless of the profit or loss position.*
- *We reserve the right at our own discretion to close your Account with 7 days notice. You will therefore have 7 days to close any positions you may have. If at the expiry of that period, your positions are still open, we will force close them and return to you any remaining cryptocurrency left in your Account.*

If you don't currently live in an area that meets their residency requirements, then you trade at your own risk and hold currency in their account at your own risk.

Is There An Overnight Hold Penalty?

Yes. Consult the fee schedule at https://primexbt.com/fees

For example, it costs $4.1 per BTC to hold a position overnight, irrespective of whether it is short or long. That cost goes down quite a bit for the other four coins, however just keep in mind this persistent "drag" against your position if you are either swing-trading it, or just holding a scalp position that has not hit your stop nor target yet.

For this reason, this broker might be a poor choice for hedging or swing trading for any duration. This is really meant to be a scalping platform.

The PrimeXBT Futures Interface

First off, I'll just go over the basics in this module guide, so definitely check out the accompanying video that I did for this module. A video is a much more efficient way to show you how to trade this interface.

And as of this writing, there is very little educational information out there for PrimeXBT; it seems that all effort at the front end has been made to get everyone to sign up for their referral program. Ugh. I also have a public video out on our YouTube channel entitled "The Good, The Bad, and the Ugly of PrimeXBT."

The Overall Trading Interface

This is shown below in Figure 2:

Figure 2
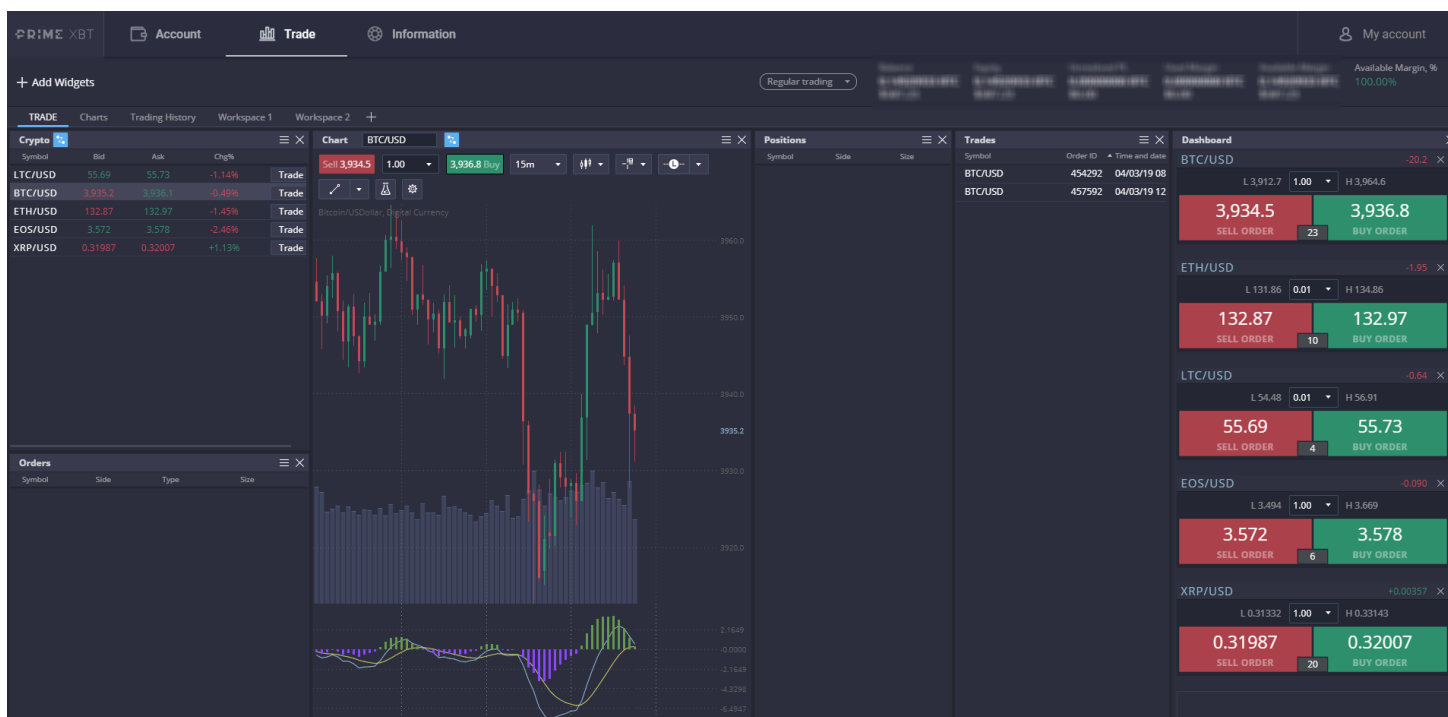
It's actually quite a nice interface and I do prefer a dark theme if you're going to stare at something for more than a few minutes. The entire workspace is configurable, so that you can add "widgets" for whatever tool that they support, so that you can customize the look and feel of the trading interface.

Again, the "help" is pretty lightweight so you have to know what you are doing beforehand.

The Actual Trading User Interface

The trading interface more resembles a Forex-type of "green=buy" and "red=sell" buttons that will open up an child UI that allows you to dial in the order. Let's see what happens if I go to enter a long BTC/USD trade by clicking on the green "BUY ORDER" button of BTC/USD:

Figure 3
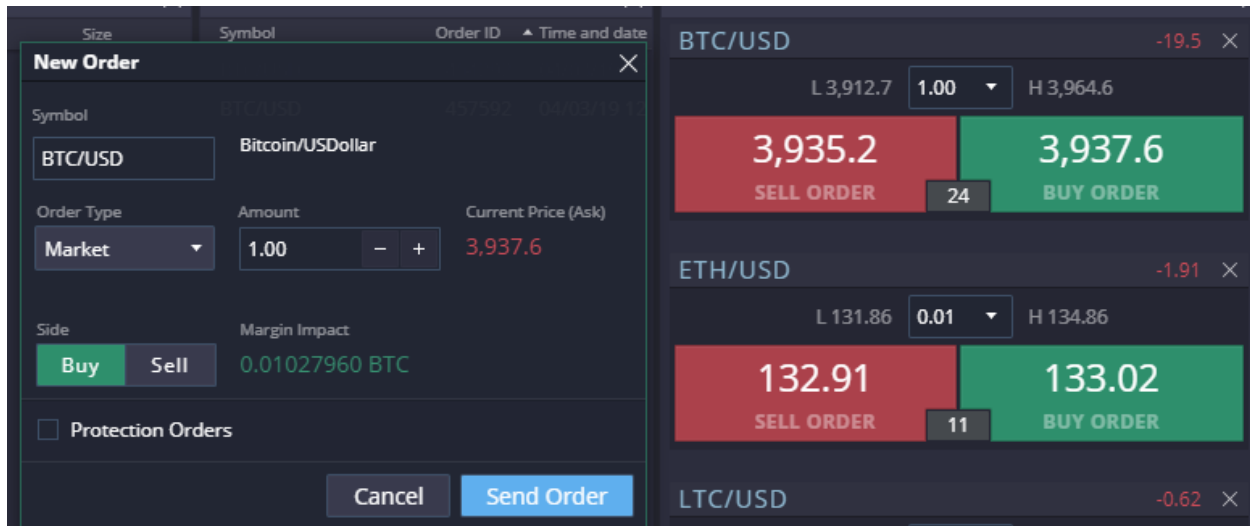
First off, you can see that the "spread" between the bid and offer is (3937.6 - 3935.2) or about $2.40. That means that if you go long at $3937.6, you are immediately $2.40 "in the hole" on the position before you cover that spread. That's not as bad as it actually sounds, because the XBT/USD futures on the CBOE put you in the hole $5 right off the bat.

Now, you can select the order type "limit" and select a buy order that is LESS than market. You can split the difference and enter it at the midpoint, or shave a few tenths off of the offer price. In my experience with PrimeXBT, it's not worth trying to negotiate the order unless you have a very volatile market that is "fibrillating." Most of the time our signals will only show for moments before the price begins to run and then you're losing too much edge to "chase" it. So yes, it pains me to admit that I'll use market orders with PrimeXBT. Even shaving a tenth off the offer does not magically produce a fill.

Now we get to the most important part of the order…the "amount" field. How much BTC do you want to leverage against? In this example, I'm leveraging 1 full BTC for my position. You can see their calculation of the margin impact, which is .0102 BTC. At the current price of $3937.6, that's the equivalent of $40.16 of initial margin.

Confused? This is actually one of the simpler interfaces…here's what that means:

If I use 1.00 BTC to leverage 100:1 against, that means that if the spot BTC price goes up by $100, then if I am long this leveraged contract, my position goes up by $100. If the price goes DOWN $100 against my long leveraged contract, then my position value DROPS by $100.

Remember the "staged" approach that we talked about in module three. NEVER trade an interface like this with full margin until you have a fully-formed and proven trading plan. Experiment with trades using very small margin decimals like .01 until you get your setups and position management nailed. Yes, you will rarely ever cover commissions at that rate, but your goal is to learn to create a system to begin with, and not necessarily make money when you start.

The Charts

The charts appear to be some lightweight variant API to TradingView, however it does NOT contain the choppiness index nor can it pull from the public trading view library, so **we will still be using the separate TradingView chart setup against the spot coin to identify the trade setups, and then only managing the position via the price scale on the internal PrimeXBT charts**.

Be aware that there is somewhat of a price differential between the actual spot price of the coin that you're trading, and what will show on the contract/price chart at PrimeXBT. For instance, as I'm monitoring the price of BTC spot on Coinbase, it's showing $3840, while the price on PrimeXBT is showing $3928.7:

Figure 4
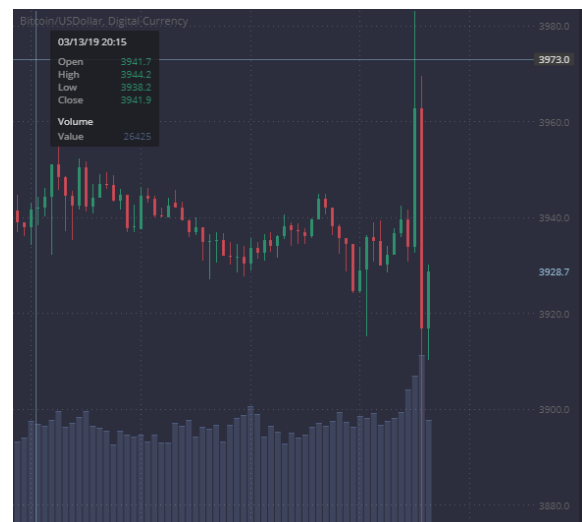
This is VERY IMPORTANT; if you view the spot charts to identify your setup, then you must correlate that entry on the spot chart to a price level on the PrimeXBT chart, which is where you will enter your limit/market order to enter the position. Entering the spot price in your order entry details will result either in no fill, or a fill at a price level that you did not expect. We will see this same phenomenon in just about every broker that trades futures, save perhaps the CBOE/CME products which are anchored to Gemini spot.

The rest of these futures brokers tie into SEVERAL different brokers/exchanges in their back-end to act as sort of a "clearing house" for their synthetic contracts. Your futures broker must be able to transfer the risk of your position instantaneously so that they're not left "holding the bag," and in doing so, they might be able to perform arbitrage of their own amongst the back-end brokers on the same currency pair. In other words, if you execute an order to sell your position, they must instantaneously transfer that position off their ledger, so it becomes a decision on their part of WHO will pay them the most at that given second for your closed position. Not something you have to worry about, but keep in mind that it helps for your broker to have SEVERAL of these back-end connections, because the price of your contract that you see on the PrimeXBT charts is an amalgamation of all of those different broker feeds.

Some brokers only have one or two back-end feeds, and if one goes down, then the price of your synthetic contract might jump significantly. There must be some law in the universe that states that any unforeseen circumstance like this will work against your position, and not for it.

The Order Types

Again, this module is not meant to replace PrimeXBT's help resources; this text and any video that I cut is meant to convey my own experiences. There are three main order types, and some advanced orders that PrimeXBT offers. I might go against conventional wisdom with my comments but these are based on my experience, and you're welcome to modify them or ignore them to suit your own purpose.

Market Order

This is an order to fill the position at the "market" price. If you go back to Figure 1, you can see that the "market" price for BTC/USD is $3960.5 ask price vs. $3958.4 at the bid. If you want to GO LONG the BTC/USD pair, you'll enter at the $3960.5 price with a market order. If you want to GO SHORT the BTC/USD pair, you'll enter at the $3958.4 price with a market order. (the way to remember this is whichever price you WANT to enter at, you will get the opposite)

A Market order is for entering NOW at the current price. This would be used specifically for breakout trades, or if you're seeing an RSILg "hook" entry signal fire.

I believe that newer Futures traders should use this Market order function to enter trades, because it's simple, the spread between bid and offer of the PrimeXBT pairs is not egregiously wide, and it allows you to manage a position with a minimum of fuss.

Limit Order

This is an entry - and exit - order which is meant for a different purpose than the Market order. Whereas the Market order gets you in NOW, the limit order is one where you control the price of entry. If you are looking to enter on a pullback down to a known support level, you enter a Limit order at that level. It may fill in minutes, or it may never fill if that pullback does not occur.

More experienced traders will split the difference between the bid and ask prices shown…say between the $3958.4 bid and the $3960.5 ask prices….to get a little more "edge" on their entry, irrespective of whether they are entering short or long. I've tried this with PrimeXBT and don't find that it allows me to gain any entry edge. I just don't get filled on trade ENTRY unless I use a market order.

Where the limit order is more useful is as a trade EXIT. Once you enter long, identify your "for-profit" exit and lay a limit order at that price. Use the methods suggested in Module 5 to identify those price points.

Stop Order

In a normal, liquid futures market, the very instant that I enter, I am applying a "bracket," which is a "one-cancels-other" combination of limit order to take profit, and a stop order to limit losses. Should I go long, this would be a combination of sell limit above the entry price, and sell stop below the entry price. A short position entry would create a bracket with a buy limit to take profit below the entry price, and a buy stop above the entry price. This is the notion behind the "OCO" bracket trade.

The problem is with STOP orders in the PrimeXBT market. A STOP order is still a MARKET order. Over the years I have seen odd occurrences with brokers executing stop orders at seemingly random prices, and it's all because a STOP order is at heart, a MARKET order and the "market price" can be whatever the broker says that it is during that instant.

A stop order might limit your losses to your designated risk management plan 9 times out of 10 or 99 times out of 100 just fine. But if you consistently use a stop order on a futures market like PrimeXBT, you WILL eventually get a head-scratching fill. This happened to me on my very first trade on PrimeXBT, which traded in a very small range over a number of days thus did not hit my stop nor my target. On day three, I was stopped out of the position, even though the price did not get anywhere near my stop order, at least according to the chart. And the stop order was not executed at my stop loss order price, but $150 below that!

A customer service request to PrimeXBT eventually rectified the issue and my losses were refunded and the trade nulled out. (Even though it would have hit my profit target the next day! Talk about Opportunity Cost!) So chalk one up for PrimeXBT customer service, as I have NEVER gotten a refund on a trade when using a stop/market order.

So it's my duty to caution you to only use STOP orders when you cannot watch the market, or are stepping out for an hour. My preference would be that you place price alerts on the chart to tell you when to act; these are known as "mental stops" and are only as good as your discipline allows you.

Protection Orders

PrimeXBT has an order feature called "Protection Orders" which is a checkbox that you can select on the initial order entry dialog; selecting it provides additional orders that will "fire" once you enter the trade, as per Figure 5:

Figure 5

The purpose of the Protection orders is to create that "one cancels other" bracket around your entry price. In the case of a long entry, for example, you would select a stop loss price below the entry price, and a "take profit" limit order price above the entry price.

You can select one or both of these "Protection Orders" during trade entry.

Again, I believe that it is good practice to ALWAYS select a "take profit" limit exit WHEN you are entering the trade. You may choose to also enter the Stop Loss order at the same time, however keep in mind my caution about using this type of stop loss order with PrimeXBT, or for that matter any of these synthetic futures vendors.

I do not know whether the Protection Orders automatically cancel the "unused side" after execution. This would be true "One Cancels Other" functionality but this is not covered in their current documentation. Always check to see that the entire trade structure has been torn down after the position has been flattened to ensure that you don't have a rogue order awaiting fulfillment.

Summary - PrimeXBT

There are a number of reasons that I've shared in this document why I like using PrimeXBT. The number one reason is because it's simple to use, but also because they don't create a trading interface that is biased against the retail trader from the very get-go. The spread widths are reasonable even if it's a bummer that you can't really negotiate inside of the spread. (although I believe that this will change if the market becomes much more active)

Even though the 100x leverage appears to be "dangerous" at first glance, this is no different than the leverage used by derivatives in more established markets and you can always dial down the correlation to the underlying currency pair through the "Amount" value on order entry.

This is a fairly new service offering so many of the "nice to have" features are not there, that we have come to expect with more established brokers. Order history, for example; when I was going through my negotiation with their customer support about my odd stop-loss issue, there was no record of the actual order that I had placed.

Simple interface good for small accounts, but you'll have to keep good records and know that holding a position overnight will create a lot of drag, irrespective of the size of the position.

Also know that if you are circumventing their Terms and Conditions based on your country of origin, that your positions could be closed mid-stream, and your account closed without notice.