Used Margin in Forex; Avoiding Margin Call and Stop Out

The concept of **Used Margin** in the **forex market** refers to the portion of a trader's funds that is locked by the broker as collateral for **maintaining** open positions. A proper understanding of **used Margin** helps prevent facing margin calls and stop outs.

Understanding the Concept of Used Margin in Forex Trading

What Is the Used Margin?

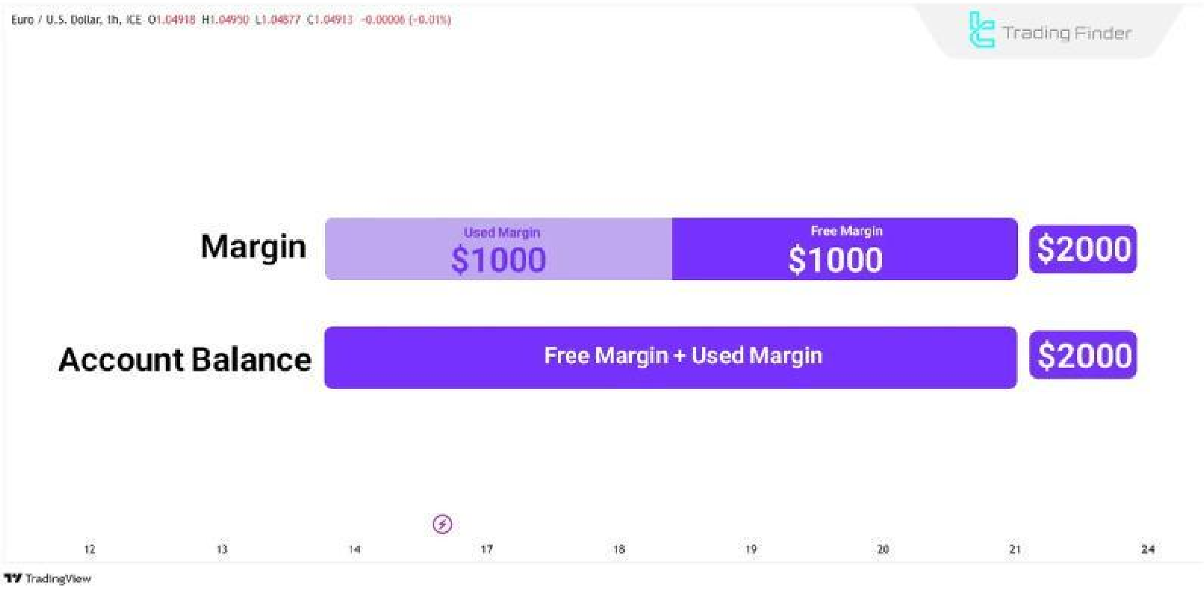
Used Margin in Forex represents the total amount of **funds subtracted** from the account balance to maintain **open trades** and is held as a guarantee by the broker. This **amount determines** how much of the account's **Equity** is available to open new positions.

Difference Between Used Margin and Free Margin

Below is a comparative table between **Used Margin** and **Free Margin**:

Parameters	Used Margin	Free Margin
Definition	The amount of funds required to keep trades open	The remaining balance after deducting the used Margin
Formula	Total required Margin for all open positions	Account equity minus used Margin
Role in Trading	Indicates the capital engaged in active trades	Shows the available capital for opening new trades
Market Volatility Impact	Not directly affected by price fluctuations	Affected by floating profit and loss of open trades
Usage Purpose	To maintain open positions against market fluctuations	To enter new trades or absorb additional market volatility

An **increase in used margin** leads to a **decrease in free margin**, while a **decrease in used margin** creates room for opening **new trades.**



Difference Between Used Margin and Free Margin in Forex

Used Margin Calculation Formula

Used Margin in Forex indicates the portion of the account balance **reserved** to maintain **open positions**; this amount remains unavailable until the trades are closed.

- **Used Margin = Total Required Margin for All Open Trades**

Brokers usually determine the required Margin based on trade size and the leverage offered. For each trade, the **required Margin** is calculated using the following formula:

- **Required Margin = (Trade Value × Required Margin Percentage)**

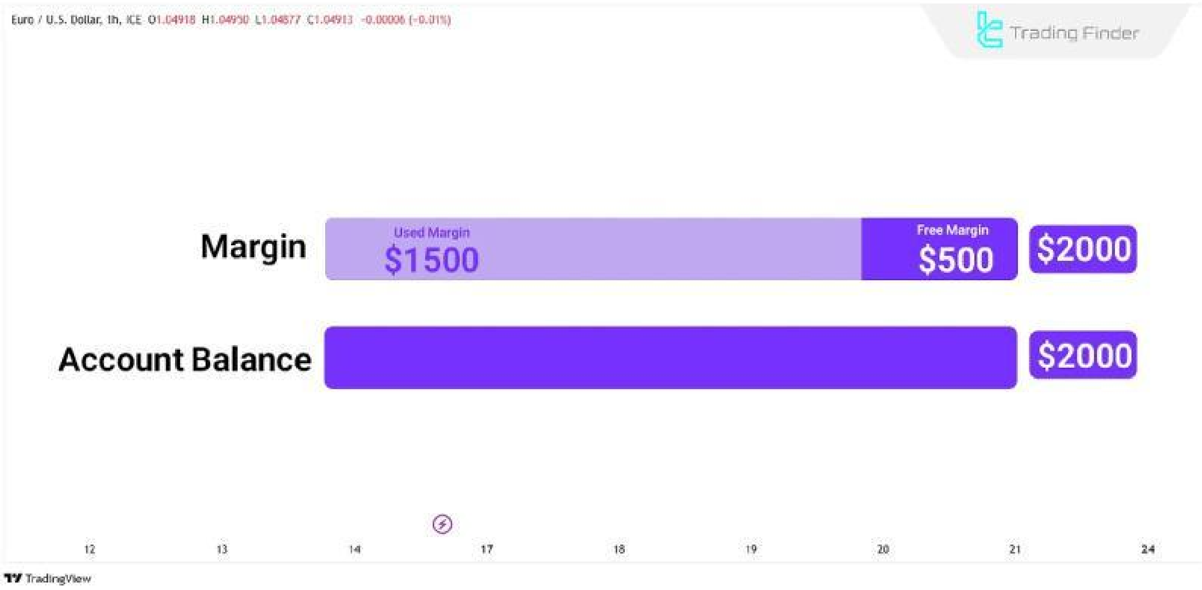
Example: If a trader has $2,000 in their account and wants to open a trade of **1 mini lot** on **EUR/USD** with **1:20 leverage**:

- **Required margin** = (10,000 × 5%) = $500

If the trader opens **three** trades of the same size, the **used Margin** will be:

- **Used Margin = 500 × 3 = $1,500**

Thus, **the used Margin** is $1,500, and only **$500** remains as **free Margin**.



Used Margin Equals Total Required Margin for All Open Trades

Margin Call and Stop Out in Relation to Used Margin

Managing the level of **used Margin** in forex is crucial, as it directly impacts the available **free Margin** and a trader's ability to maintain their positions. If the margin level drops excessively, the trader may face a **margin call** or even a **stop out**.

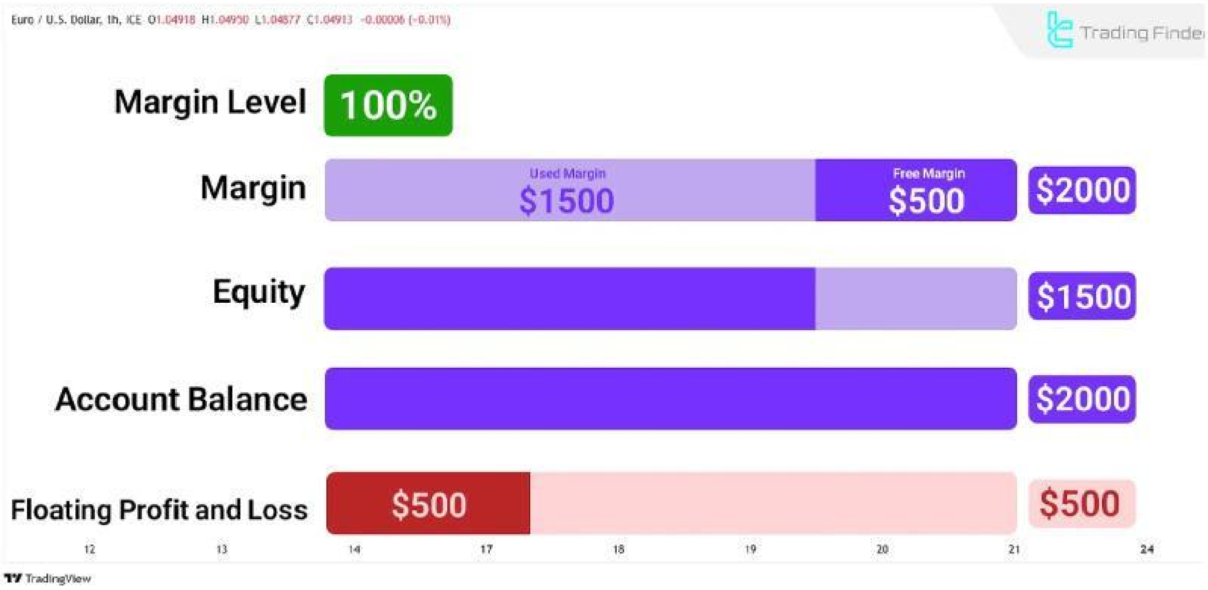
- **Margin Call**: Occurs when the **margin level** reaches **100%**, meaning **the equity is fully utilized as margin**. At this point, the trader cannot open new trades;
- **Stop Out**: This occurs when the margin level falls below a critical threshold (typically **50% or lower**), prompting the broker to **automatically close some trades** to restore the account's margin level.

Example of Margin Call and Stop Out

Suppose in the previous example, the total **unrealized loss across the three trades** amounts to **$500**. In this case, the **equity** drops to **$1,500**, while the **used margin** remains at **$1,500**:

- **Margin Level = (1,500 / 1,500) × 100% = 100%**

As a result, a **margin call** is triggered.

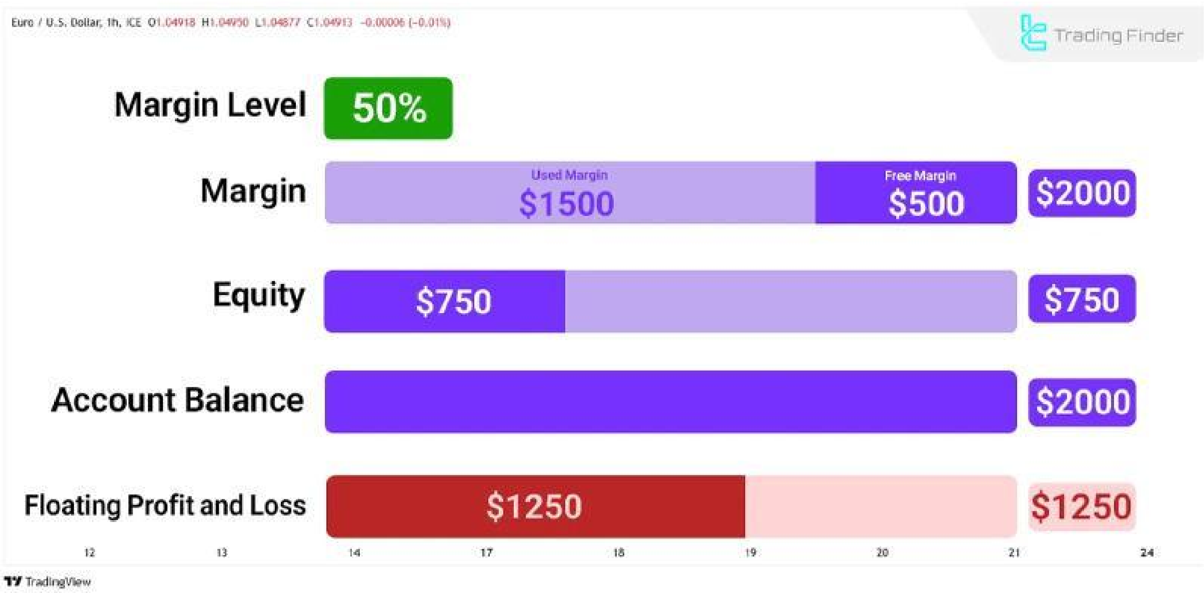


Example of Margin Call triggered after an increase in Used Margin

Now, if the unrealized loss increases and the **Equity drops to $750**:

- **Margin Level = (750 / 1,500) × 100% = 50%**

The broker starts closing positions (**stop out**).



Example of Stop Out Triggered by Rising Used Margin and Floating Losses

Conclusion

Used Margin and **Free Margin** are critical indicators for measuring risk and managing positions in forex trading. A proper understanding of used Margin enables traders to avoid **margin calls** and **stop-out** scenarios.

Excessively high used Margin reduces account flexibility and exposes the trader to greater risk.

Sources:

1.our website link :
https://tradingfinder.com/education/forex/used-margin/

2.all Education :
https://tradingfinder.com/education/forex/

3.TradingFinder Support Team (Telgram):
https://t.me/TFLABS