

870.Trades

FUNDING RATE STRATEGY

by **Homegrown Investments**

UNDERSTANDING FUNDING RATE

Funding Rates

The interest rate charged to use leverage in crypto trading is known as the funding rate. Negative funding rate means the Shorts are paying the Longs, while a positive funding rate means the Longs are paying the Shorts.

What Do Funding Rates Indicate?

Funding rate can help us understand what the overall market sentiment is. Also if it is worth it, or risky, to enter a long or short position.



OTHER THINGS FUNDING RATES INDICATE

- 1** If the shorts are increasing. We might want to **enter trades with care.**
- 2** If longs are increasing, maybe we are entering **buying territory.**
- 3** If the current rally or drop is **sustainable price action** based on high or low interest fees.

This market sentiment sprinkled with some Technical Analysis will tell us the risk presented with going either long or short. If the **technical play give you a good risk/reward**, and the funding rates supports your sentiment. That play becomes higher conviction.



HOW DO WE ACT ON IT?

The funding rates are not meant to be used as gospel, & understanding how context matters is very important. The rates gives us a bias, but the chart gives us the play.

Here is a few examples:

Funding rates switched to negative over an extended run, and we are now sitting at resistance. **The funding rate data is telling you that there is an increasing amount of shorts.** This is happening after an extended bullish period. The play here becomes: if we reject the resistance, it is fair to assume the shorts are winning, and it will likely be profitable to join them.

You have identified a strong support level that seems to be holding strong, and the dips are being bought up. The funding rate is increasingly negative here. What the data might indicate for you is: **an increasing amount of trades are going short even though we are at support. These are likely to get liquidated if the price goes the other way.** So the bias becomes bull, if we hold support, and then bounce off it, it's very likely that the short positions being held are unsustainable over a longer period of time and will have to cover. The same play is applicable, if the funding rate is slowly going green, we also know that there is increased Long pressure on the play.

Similar to scenario 1, you are now at resistance, but funding have not gotten red, quite the contrary, funding rates have skyrocketed. This might also indicate that there is no more fuel in the tank to push through the resistance.

We know that high interest rates = unsustainable. So we should see that skyrocketing interest rates are even more unsustainable. Knowing that resistance = sell pressure, then tips us off to start finding exits.

WHERE CAN I FIND FUNDING DATA?

- Here is a good free resource: <https://www.viewbase.com/funding>
- That our traders use, it has a lot of key data and information, including funding rates.