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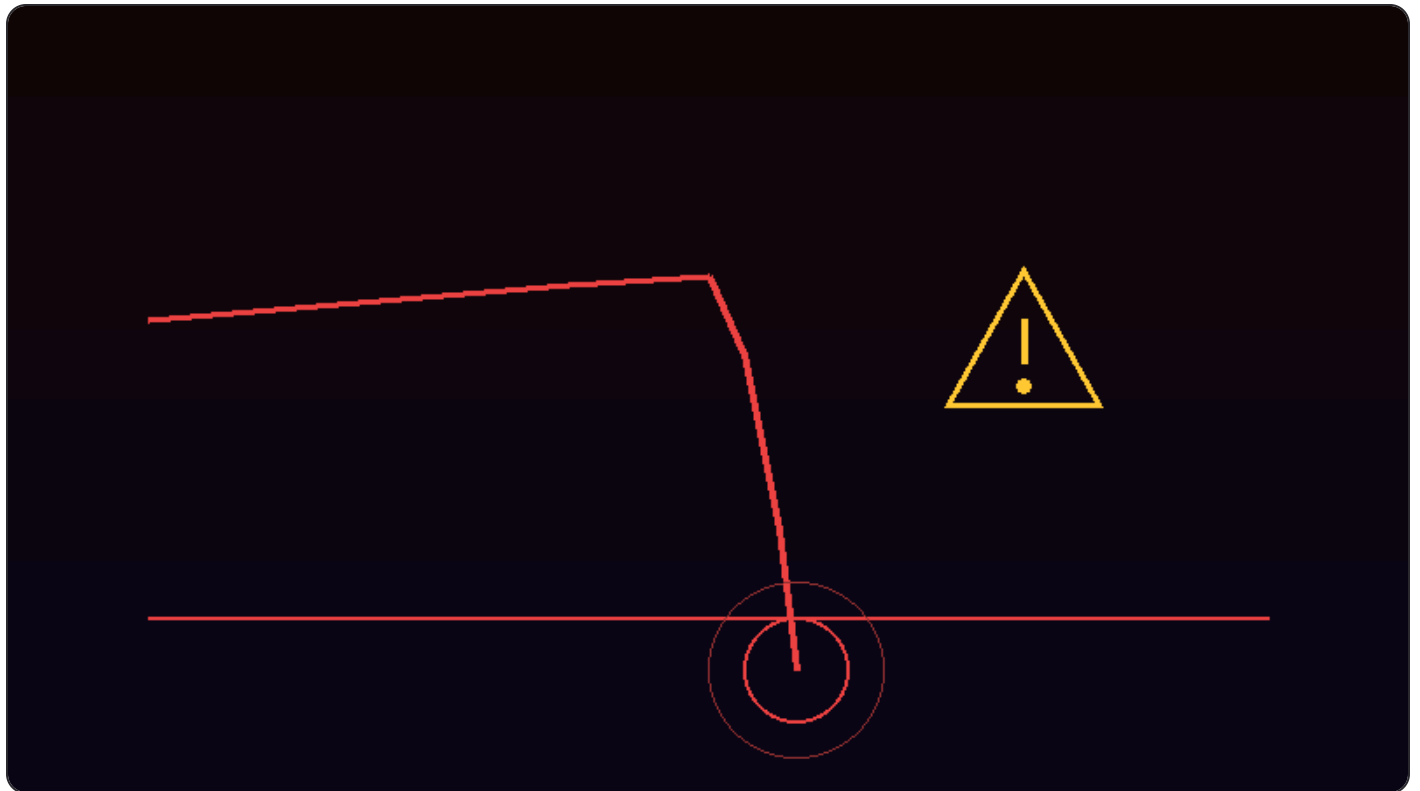
What Is Liquidation and How to Manage It

Everything you need to know about liquidation in perpetual futures — how it happens, how liquidation prices are calculated, and how to avoid getting liquidated.



Liquid
Editorial team

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Liquidation is what happens when a leveraged position no longer has enough collateral to satisfy the platform's risk requirements. The position is reduced or

closed so losses do not keep growing unchecked.



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If you trade perpetual futures, liquidation is not an edge case. It is part of the product's core risk engine. You should know where your liquidation price is, what price source can trigger it, and how much collateral is at risk before you enter any position.

TRIGGER SOURCE	FIRST ACTION	LIQUIDATION ENGINE	WHAT YOU KEEP
Mark	Partial	Auto	Net
Fair value, not a single last trade	Reduce before fully closing, when possible	No call, no warning, no grace period	Collateral minus loss, minus liquidation fees

Liquidation in One Paragraph

When you trade with leverage, you post margin to support a larger position. As the market moves, your unrealized PnL changes your equity. If your equity falls below the required **maintenance margin**, the platform can liquidate the position. Depending on venue rules and position size, liquidation may reduce part of the position first or close it entirely.

KEY TAKEAWAY

The goal of the liquidation engine is to keep the system solvent. The cost to the trader is that liquidation is a *forced* exit — often at a bad time, sometimes with less collateral returned than expected, and usually with a liquidation fee on top.

Initial Margin vs. Maintenance Margin

Two margin concepts matter, and they are not the same number:

THE TWO MARGIN THRESHOLDS			Sign up
	Initial margin	Maintenance margin	
What it does	Collateral required to open	Minimum to keep the position open	
When it applies	At entry only	Continuously, on every mark price tick	
Typical size (10× position)	~10% of notional	~0.5–1% of notional	
Falling below it...	Order is rejected	Position is liquidated	

Maintenance margin is usually lower than initial margin, but it is not zero. That is why a 10× position is not safely liquidated only after an exact 10% move against you. Fees, funding, maintenance margin, and mark-price movement can all bring liquidation closer than the simple headline leverage suggests.

A Simple Example

You have \$1,000 and open a 10× long ETH perp at \$3,000. Position notional is \$10,000.

THE SAME TRADE, TWO MARKET PATHS	
CUSHION INTACT · ETH → \$2,900	
-\$333	
ETH dropped 3.3%. The position is down about \$333 before fees and funding. You still have meaningful margin left — the trade is not in danger.	
Mark price	Unrealized PnL
\$2,900	-\$333

Remaining margin

~\$667

Liquidation distance

~6% away

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CUSHION THIN · ETH → \$2,800

-\$667

ETH dropped 6.7%. The position is down ~\$667. Your cushion is thin — fees, funding, and a few more bad ticks against you could trip maintenance.

Mark price

\$2,800

Remaining margin

~\$333

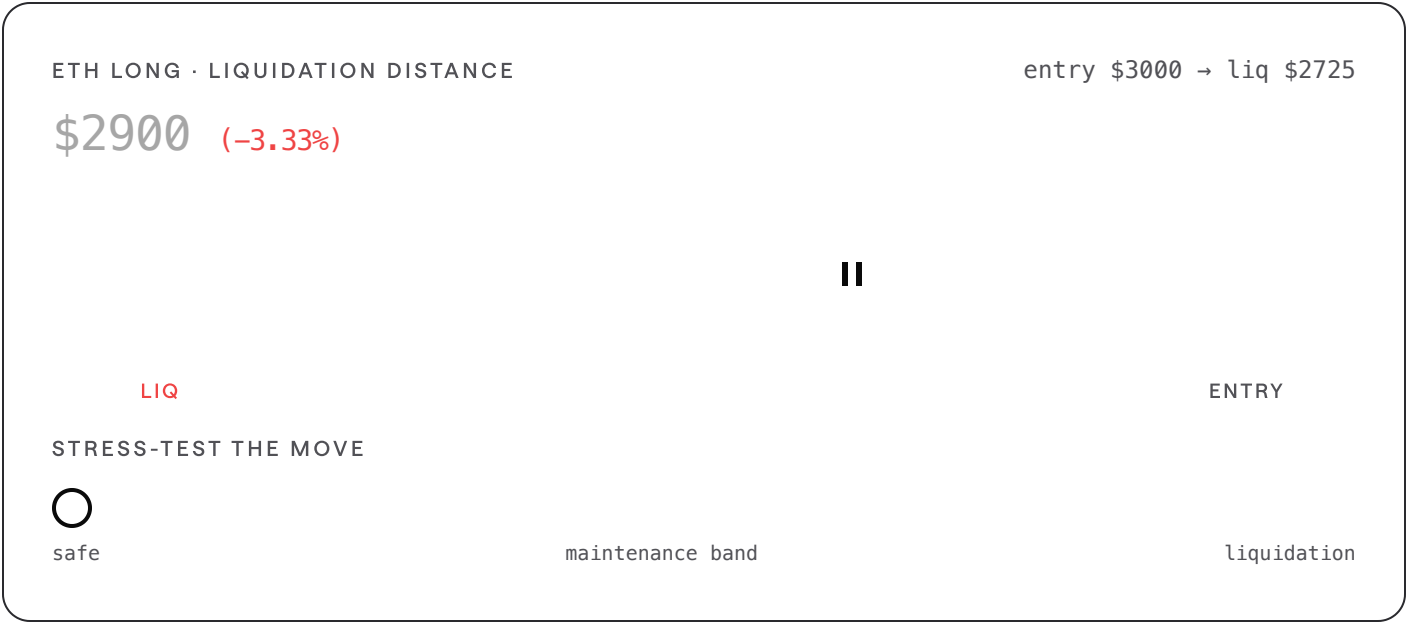
Unrealized PnL

-\$667

Liquidation distance

~3% away

If ETH keeps falling, the platform will not wait until every dollar of margin is gone. Once equity approaches the maintenance margin threshold, the position becomes liquidatable. Use the stress test below to see where that line sits:



The exact liquidation price depends on venue parameters, mark price, fees, funding position size, and margin mode. Treat liquidation price as a *live estimate* tied to risk parameters — not a decorative number on the order ticket.

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Mark Price vs. Last Price

Liquidations are generally triggered by a **mark price** or fair reference price, not simply the last traded price.

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WHY THIS MATTERS

The last traded price is the most recent execution on a venue. It can be noisy, especially in thin markets. **Mark price** is designed to represent fair value using oracle / reference pricing — and, in some systems, order-book conditions. This reduces the chance that a single odd trade or temporary wick unfairly liquidates users. *The chart price you are watching may not be the exact trigger source.*

Always check the platform's displayed liquidation price and mark-price methodology. The two prices usually move together, but in a sharp move or a flash wick, the gap can be the difference between getting liquidated and not.

Partial Liquidation vs. Full Liquidation

Liquidation does not always mean the entire position disappears immediately. Most modern venues — Liquid included — try to close *just enough* to restore margin first.

TWO WAYS THE SAME LIQUIDATION CAN RESOLVE

PARTIAL LIQUIDATION

Reduced



The system closes part of the position to restore margin requirements. You keep a smaller position and the remaining collateral, minus liquidation fees. Best-case path when liquidity is healthy.

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Position after	Margin restored
Smaller	Yes
Collateral kept	Fee impact
Partial	Lower

FULL LIQUIDATION

Closed

Market is moving too quickly or liquidity is too thin to safely reduce. The whole position is closed. Backstop systems may engage if the close itself can't be filled cleanly.

Position after	Margin restored
Zero	—
Collateral kept	Fee impact
Whatever's left	Higher

Backstop Liquidation

If a normal market liquidation cannot close the position safely, a venue may use a **backstop liquidation** mechanism — the position and its associated collateral are transferred to a designated liquidator, protocol backstop, or insurance vault.

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THE COST OF THE LAST-RESORT PATH

Backstop liquidation is a failsafe for fast markets and thin liquidity. It also means some or all of your maintenance margin may not be returned — the backstop needs a buffer to absorb execution and market risk. **Do not treat liquidation as a clean, fee-free stop loss.** It is a last-resort risk process and the worst path to exit a trade.

What Determines Your Liquidation Price



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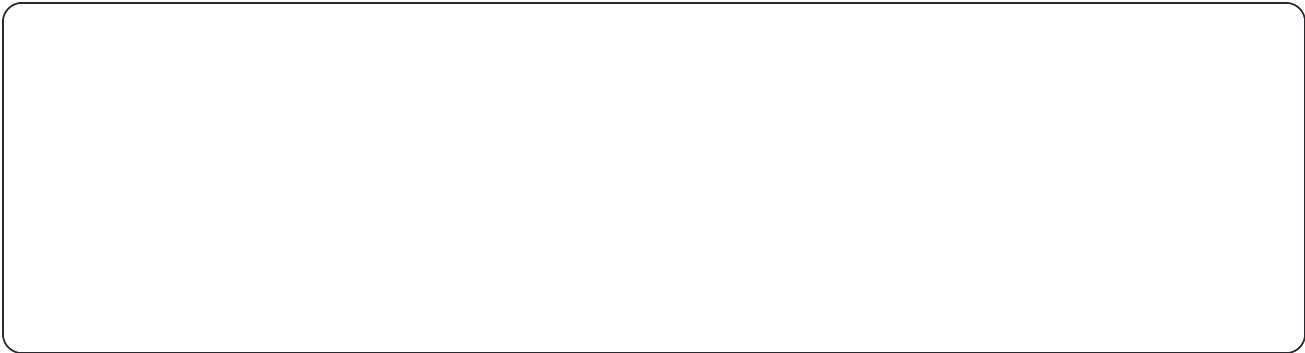
Liquidation price is not a single static number on your order ticket — it is the output of six live inputs:

THE INPUTS YOUR RISK ENGINE WATCHES		
INPUT	What it does	How to control it

Cross Margin vs. Isolated Margin Liquidation

With **isolated margin**, only the collateral assigned to one position is directly at risk. With cross margin, positions share an account-level collateral pool — better survival on any single trade, more contagion if one really blows up.

A LOSING ETH TRADE DRAINS...	Cross Margin	Isolated Margin



Total posted	\$10,000
Trade loss	-\$2,500
Remaining	\$7,500

POSITIONS

ETH long (the loser)	\$4,000
BTC short	\$3,500
SOL long	\$2,500

Cross margin pools collateral — the ETH loss draws from the same well that supports BTC and SOL. Better survival on any one trade, more contagion when one goes badly.

Cross margin lowers the chance of isolated-position liquidation. It does not lower *total* risk. It changes where the risk is pooled.

How to Reduce Liquidation Risk

SIX WAYS TO REDUCE LIQUIDATION RISK

01 Use lower leverage

	The simplest, most reliable fix. Lower leverage gives normal volatility more room before maintenance margin trips. Sign up
02	Set a stop before liquidation Your stop loss is your chosen exit. Liquidation is the platform's forced exit. You want your stop to trigger first.
03	Monitor liquidation distance, not just PnL A position can look manageable in dollar terms while sitting too close to liquidation. Always check the price gap, not just the unrealized loss.
04	Account for funding Funding payments can reduce margin over time, especially on large notional positions. See how funding rates work.
05	Add collateral only with a plan Adding margin moves liquidation further away — but it also increases capital at risk if the thesis is wrong. Refusing to add is sometimes the better trade.
06	Avoid high leverage during events Earnings, token unlocks, CPI prints, central-bank decisions, and major protocol events can move markets faster than normal stop logic expects.

Liquidation Cascades

A **liquidation cascade** happens when forced closures push price further in the direction of the move, causing more liquidations at nearby levels — and so on.

For longs, liquidation means *selling into a falling market*. For shorts, liquidation means *buying into a rising market*, which can create or intensify a [short squeeze](#). Crypto and perp markets

can cascade quickly because leverage is high, trading is continuous, and liquidation engines operate automatically.

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WHY TRADERS WATCH LIQUIDATION CLUSTERS

Liquidation clusters become important liquidity zones. Price can accelerate sharply when a large cluster is triggered — and slow down when the cluster has been cleared. Many discretionary traders track open interest and funding alongside liquidation maps for exactly this reason.

Further Reading

- [Liquid docs: liquidations](#)
- [Liquid docs: leverage and margin modes](#)
- [Liquid docs: funding rates](#)

Trade Perps on Liquid

Liquid shows liquidation price, margin mode, unrealized PnL, and position risk so you can size trades before they become emergencies.

- **Create your account.** Sign up with email or connect a wallet.
- **Fund your account.** Use supported funding methods or crypto deposits.
- **Check liquidation before entry.** If the liquidation level is within normal volatility, reduce leverage or position size.
- **Manage the trade.** Use stops, monitor funding, and reduce exposure before liquidation becomes the exit plan.

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Frequently Asked Questions

What is liquidation in crypto futures?



How is the liquidation price calculated?



What is the difference between initial margin and maintenance margin?



Can you avoid liquidation?



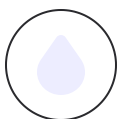
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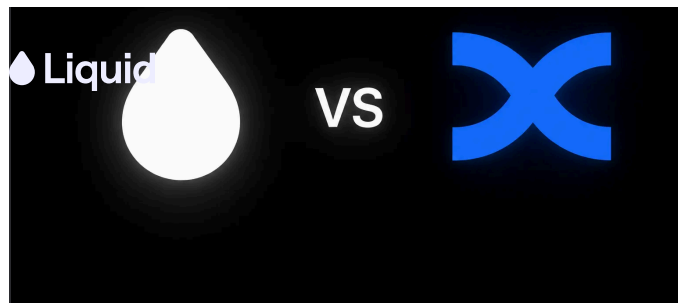
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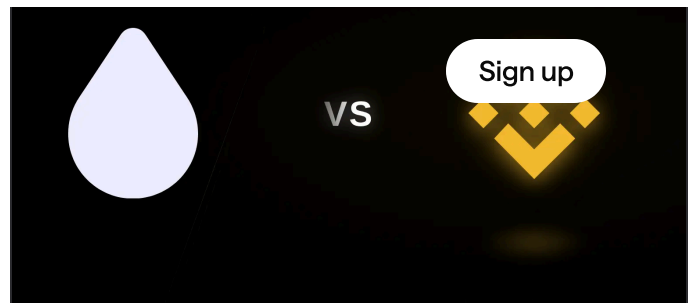


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