The impact of interbank trading on the foreign exchange balance

If market maker A buys $1.5 million from market maker B in the interbank market, his foreign assets increase by a corresponding amount, while his foreign liabilities remain unchanged. The balance between his foreign assets and liabilities thereby changes too. If A's foreign-denominated liabilities were higher than his foreign-denominated assets (known as being "short" or having a "short position"), he has moved closer to balancing them, and improved his foreign exchange balance. The opposite applies if his foreign assets exceeded his foreign liabilities (known as being "long" or having a "long position"), because after the transaction, the imbalance has increased even more. Conversely, after the transaction the counterparty B has reduced his foreign assets by the amount of $1.5 million.