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APPROVED FOR RELEASE - CIA INFO □ DATE: 29-Aug-2012

ARAB STATES - ISRAEL: Israel early this morning ordered its forces to resume the fight against Egypt because of "incessant and continuous violations" of the day-old cease-fire by Egyptian forces. Cairo responded by asserting that the Israeli move compelled it to "use force to strike" at the Israelis.

Fighting had resumed in the central sector of the Egyptian front an hour after the cease-fire deadline. Tel Aviv claimed that the Egyptians had begun shelling Israeli positions near Ismailia and that by late last evening fighting had spread to other areas. Cairo asserted that Israel fabricated the violations as an excuse to renew its own activity. According to a Defense Ministry spokesman, Israeli-controlled territory on the west bank of the Suez Canal extended from near Ismailia in the north to the outskirts of the city of Suez in the south. Tel Aviv acknowledged that Egyptian forces still held two significant areas on the east bank: a narrow strip opposite Ismailia north to Port Said and a southern sector south of Great Bitter Lake extending to the Gulf of Suez.

On the northern front, fighting also continued through the cease-fire deadline. Heavy fighting occurred on the slopes of Mount Hermon yesterday. By evening the Israelis said they held 350 square miles of Syrian territory. The Israelis also launched air and artillery strikes against fedayeen bases opposite Mount Hermon in Lebanon, [REDACTED]

In Israel, Prime Minister Meir was scheduled to deliver an address on the cease-fire today before the Knesset. Initial unofficial media commentary from Tel Aviv on the cease-fire had been cautious and unenthusiastic. Most commentators had taken the line that the cease-fire had interrupted Israeli forces on the way to victory and was designed to preserve the Arabs from defeat.

Prior to the Israeli resumption of fighting, Cairo had shown some confidence that Egypt would be able to hold out for complete Israeli withdrawal.

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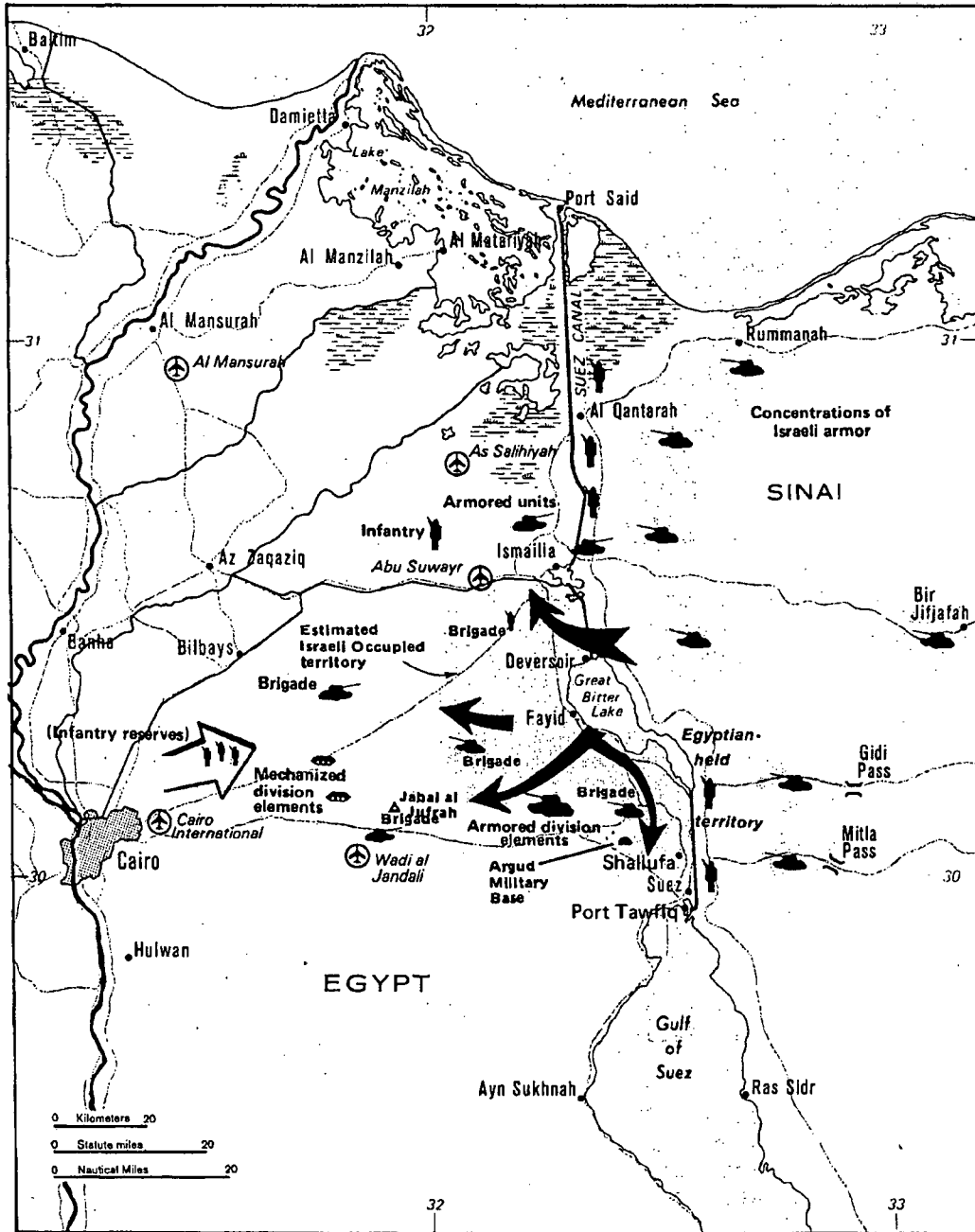
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Suez Canal Zone



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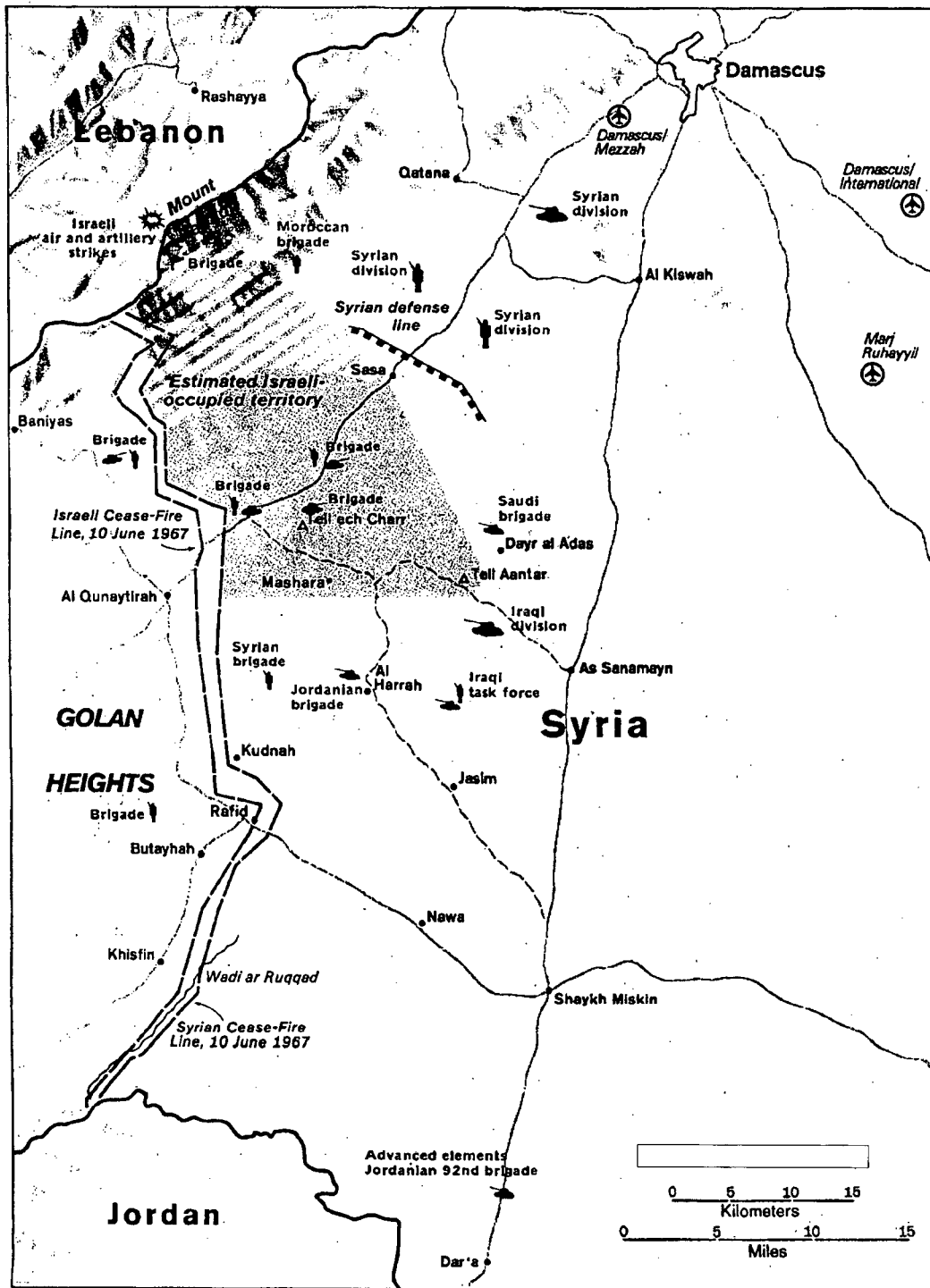
Israeli Forces
 Egyptian Forces

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The Syrian Front



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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar showed little change on international money markets yesterday. It lost some ground relative to the European currencies early in the day because of increased political uncertainties in the US, but news of the Egyptian acceptance of the UN cease-fire proposal helped it to recover most of its losses.

US vulnerability to Arab oil and monetary pressures has caused the dollar to weaken gradually since the outbreak of the Middle East fighting on 6 October. The losses, however, have not been great--0.5 to 1.5 percent relative to the major European currencies--for a number of reasons:

--European exposure on the oil question inspires little confidence that those countries could escape damage if the US is made to suffer from an Arab oil embargo.

--Currency traders are reluctant to speculate against what many feel is an already undervalued dollar. In addition, capital controls make more expensive the shifting of money into the stronger European currencies. Doubts about the long-run strength of sterling and the French franc make those currencies an unattractive alternative to the dollar. [REDACTED]

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