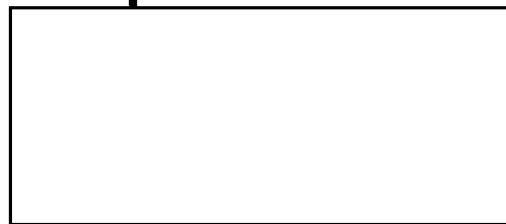


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**CHILE:** The calm that prevails in most areas of the country may prove to be short-lived. Supporters of the ousted Popular Unity (UP) government are organizing in exile and may be regrouping inside the country as well.

The military has been surprised by the amounts of weapons uncovered and is convinced that much more materiel is still in the hands of leftist extremists.



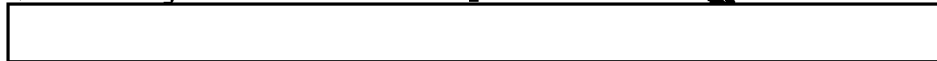
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As of now, however, most visible antigovernment activity is taking place outside Chile. A "patriotic



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None of these plans appears to be firm, and international support for an armed insurgency probably will depend on the number of Chileans who show a willingness and ability to confront the regime.

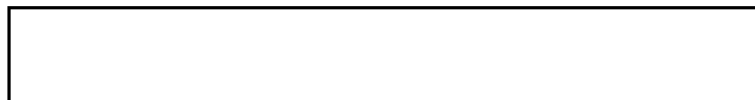


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JORDAN: King Husayn is taking a calculated risk that his decision to amnesty exiled and imprisoned fedayeen will ease the way for Syrian President Asad to resume diplomatic relations with Amman and for Kuwait to restore its subsidy payments.

Husayn presumably believes he can handle the unhappiness the amnesty is likely to engender in his army. The King will have to convince his officers that he did not agree at the Cairo summit to allow the fedayeen to re-establish bases in Jordan and did not make any other concessions opposed by the army. The release inside Jordan of several hundred fedayeen will complicate the task of the Jordanian security services, but many of those amnestied may either leave the country or abandon the commando movement.

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Whether the King's gesture will make it possible for President Asad to resume relations is uncertain. Asad would clearly like to do so, and he may be moving to muzzle potential sources of opposition among the fedayeen in Syria. The Syrians closed down a Fatah radio station earlier this week after it criticized the Cairo summit,

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The amnesty seems unlikely to be enough to persuade the Kuwait Government to resume its subsidy payments to Jordan. The Kuwaitis appear to have hardened their conditions in the wake of the Cairo summit. Earlier this week a government spokesman said Kuwait could not restore the payments unless the Palestine Liberation Organization endorsed the step.

(continued)

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Fedayeen spokesmen have denounced the amnesty, maintaining that they would not be "taken in" by an action that they correctly conclude does nothing to change Husayn's basically hard-line policy toward the fedayeen. The release of the imprisoned guerillas will not significantly augment fedayeen capabilities to strike at Israel or to mount international terrorist operations.

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INTERNATIONAL MONETARY DEVELOPMENTS: International money markets remained unsettled yesterday and the French franc came under heavy pressure. French central bank intervention to support the franc/

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amounted to about \$300 million, far less, however, than quoted in some press reports. Total intervention by other EC central banks, mainly the Bundesbank, in the form of French franc purchases reportedly was on the order of \$100-\$150 million.

International traders unloaded the French currency as rumors spread of a new European currency realignment incorporating a French devaluation. These rumors generally are still feeding on the uncertainty created last weekend by the Dutch guilder revaluation, the announcement of the first monthly French trade deficit in over a year, and general uneasiness over French inflationary problems.

The dollar gained back some of the ground lost earlier in the week. An announcement that the US basic balance-of-payments deficit for the second quarter was the smallest since 1970 helped the recovery.

The outlook for a return to market stability is clouded; at a minimum continued European central bank intervention probably will be required. Foreign exchange dealers believe that the Belgians will feel constrained to revalue--a large portion of Belgian trade is with the Germans and Dutch, both of whom have revalued in recent months. A Belgian revaluation, in turn, conceivably could ease pressures on Paris to devalue or, alternatively, could add to pressures for a mark revaluation.

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WEST GERMANY - USSR: Bonn and Moscow will probably begin negotiations early next month on exchanging military attachés. Agreement has already been reached on some details, and Bonn expects the attachés to be at their respective posts by about the first of the year.

Chancellor Brandt's Ostpolitik adviser, Egon Bahr, broached the subject in talks with Foreign Minister Gromyko last October. Progress has been slow; the two countries informally agreed in June that the respective staffs should be limited to 12 persons, six of whom would be military officers with diplomatic status.

Bonn and Moscow resumed diplomatic relations in 1955, but the question of assigning military attachés was deferred, largely because both sides recognized it was inextricably involved with the thorny problem of Four-Power rights "in Germany as a whole." The general improvement in Soviet relations with Western Europe and with West Germany in particular, however, has paved the way for action on the attaché question.

One specific Western concern has been that the exchange of attachés might affect the status of the US, UK, and French military liaison missions accredited to the Group of Soviet Forces in East Germany. Some of this concern was relieved this summer, however, when the Soviets revised the passes used by the Western missions, suggesting that they do not intend to abrogate the missions unilaterally. Bonn officials, meanwhile, have assured Western diplomats that the Soviet attachés will be restricted to dealing with the Bundeswehr, thus preserving the need for Soviet liaison missions to deal with the Western forces.

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ICELAND: Foreign Minister Agustsson has reminded the US ambassador that he wishes to visit Washington early next month to begin formal negotiations on the future of the US-manned Icelandic Defense Force (IDF). NATO Secretary General Luns, who visited Iceland on 16-18 September to argue the IDF cause, found the atmosphere so disturbing that he fears the IDF may be a casualty of the cod war with Britain.

Agustsson said he needs some device for saving the IDF without bringing down Iceland's coalition government or splitting his Progressive Party, which leads it. He claimed to need some indication that the US is willing to reduce substantially its military forces in Iceland and to substitute Icelanders for some of them over a specific period of time.

Agustsson has not been effective in the past on the IDF's behalf, and he faces mounting problems in negotiating an arrangement that would satisfy both the US and his colleagues. Four of the seven Icelandic cabinet ministers probably prefer retaining the IDF in some form, but they have lost the initiative to the minority who have been able politically to link the IDF issue to the cod war. IDF opponents argue that NATO did not defend Iceland against the aggression the British committed by stationing frigates in waters claimed by Iceland, a line that strikes a responsive public chord.

Luns found all the Icelandic ministers with whom he spoke except Agustsson bitter and abrasive, particularly Communist minister Kjartansson who told him the question was not whether the IDF should leave, but when. Agustsson, who Luns said meekly tried to play a moderating role, in turn found Luns' mission "worthless."

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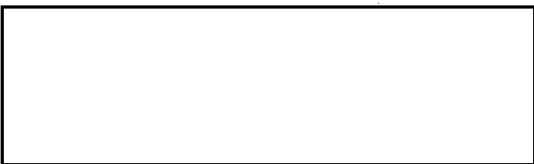
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