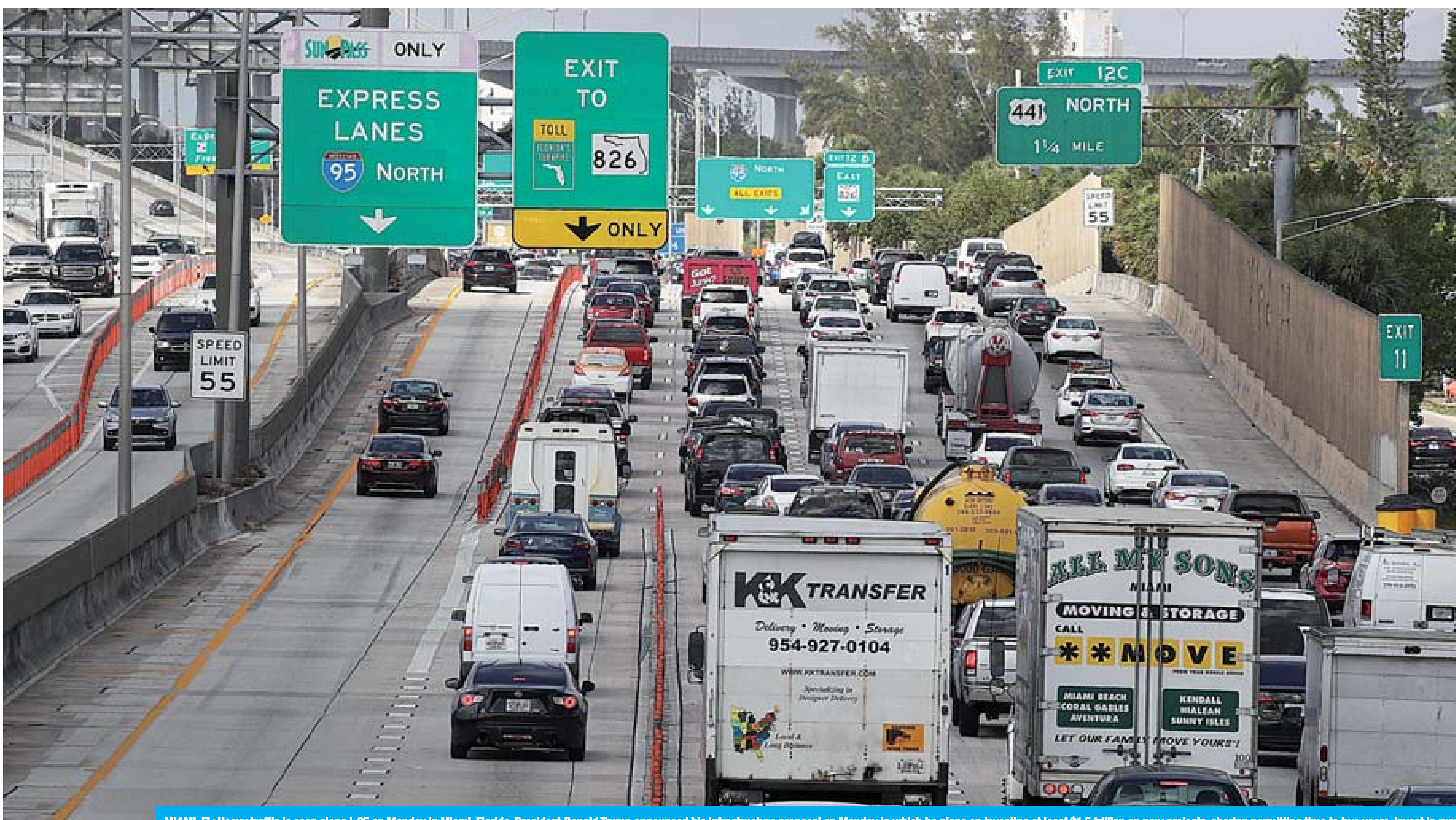
Kuwait Times
Established 1961

Business

18 Warba Bank offers innovative and fully-digital account opening service

19 Stock market rout halts oil price rally; two-month gains wiped off

21 KFH reaps 28 renowned international awards in 2017



MIAMI, FL: Heavy traffic is seen along I-95 on Monday in Miami, Florida. President Donald Trump announced his infrastructure proposal on Monday in which he plans on investing at least $1.5 trillion on new projects, shorten permitting time to two years, invest in rural projects and improve worker training. —AFP

Trump unveils ambitious infrastructure plan

Budget proposals include steep social cuts, rising deficits

WASHINGTON: US President Donald Trump on Monday unveiled an ambitious proposal to renew American infrastructure as part of a budget that calls for a stunning rise in debt and trillions in cuts to the social safety net and other spending.

The blueprint for the 2019 fiscal year abandons the long-held Republican goal of balancing the federal budget within a decade, with deficits projected to peak in 2020 and persist into the foreseeable future amid an aggressive and costly defense buildup.

The initiative to revive crumbling US roads, bridges and airports includes just $200 billion in federal funds, which the White House says will spur at least another $1.3 trillion in investments from state governments and private investors.

Administration officials tout the infrastructure plan as part of a shift back to national priorities, with $50 billion dedicated to projects in rural areas, many of which favored Trump in the 2016 elections.

Trump said the shift comes in the wake of the wasteful military spending since the terrorist attacks of September 11, 2001. But he also touted a big boost in defense spending, including a revived nuclear arsenal that would leave the US armed forces "far in excess of anybody else."

"We have spent $7 trillion in the Middle East, $7 trillion. What a mistake," Trump said Monday. "And we're trying to build roads and bridges and fix bridges that are falling down and we have a hard time getting the money and its crazy."

Over 10 years, the White House proposal seeks to slash trillions in spending across the much of the federal government, with the knife going especially deep into spending on health and poverty. It would eliminate former President Barack Obama's signature health insurance program and cut more than $200 billion in food assistance for the poor while cutting medical programs aimed at the poor and older Americans.

Reciprocal tax

Trump said he would push for a "reciprocal tax" against countries, including US allies, that levy tariffs on American products, but officials did not provide details on how such a tax would be structured or what goods it would apply to. During his populist 2016 presidential campaign, Republican Trump railed at countries that had trade surpluses "taking advantage of the United States" and he revisited the theme on Monday.

"We cannot continue to let people come into our country and rob us blind and charge us tremendous tariffs and taxes and we charge them nothing," Trump told reporters at a White House event to announce a proposed infrastructure plan. The United States loses "vast amounts of money with China and Japan and South Korea and so many other countries ... It's a little tough for them because they've gotten away with murder for 25 years. But we're going to be changing policy," he said.

US to push for 'reciprocal tax' on partners

Trump said his administration will impose a "reciprocal tax" to charge other countries - "some of them are so-called allies but they're not allies on trade."

He did not specify how such a tax would be structured, or whether he meant that US tariff rates should be raised to equal to those charged by other major trading partners. Administration officials were not immediately able to elaborate on the president's comments.

Trump cited motorcycle maker Harley-Davidson as an example of the problem of unfair trade. Harley is building a factory in Thailand, partly because its US-built bikes face a 60 percent tariff there.

The United States has pledged to the World Trade Organization a relatively low, 3.5 percent applied tariff rate, compared to 9.9 percent for China and 5.2 percent for the European Union. For some products, the gap is much wider, such as in passenger vehicles, where the United States charges 2.5 percent tariffs, versus 25 percent in China and 10 percent in the EU. It was also unclear whether Trump was reviving the idea of a border adjustment tax, an idea rejected by congressional Republicans in last year's tax reform effort. —Agencies

IEA: US output is putting brakes on oil prices

PARIS: Surging oil production in the United States is putting the brakes on crude prices, recently in recovery from a long slump resulting from a worldwide supply glut, the International Energy Agency said yesterday. "Oil price rises have come to a halt and gone into reverse," the IEA wrote in its monthly oil market report, saying the "main factor" behind this was booming US oil production.

"For now, the upward momentum that drove the price of Brent crude oil to $70 per barrel has stalled," it said. Oil prices fell from giddy heights of $115 per barrel in 2014 to under $35 at the start of 2016. But the market has observed a turnaround since, and oil prices rose from an average $44 in 2016 to $54 in 2017 to nearly $70 last month.

One of the main factors behind this was a deal struck by OPEC countries and other oil-producing countries, such as Russia, at the end of 2016 to throttle production. That deal has since been extended until the end of 2018. Nevertheless, wooed by rising crude prices, shale producers, particularly in the US-who are not party to the deal-are ramping up output to cash in on the boom.

And that, in turn, is jeopardizing the delicate balance that the market has now reached.

"In 2018, fast rising production in non-OPEC countries, led by the US, is likely to grow by more than demand," the IEA said. In just three months to November, crude output in the US increased by a colossal 846,000 barrels per day, "and will soon overtake that of Saudi Arabia," the agency said.

"By the end of this year, it might also overtake Russia to become the global leader."

'Sobering thought'

Shale production is controversial, because in order to extract oil and gas, a high-pressure mixture of water, sand and chemicals is blasted deep underground to release hydrocarbons trapped between layers of rock. And environmentalists argue that the process-known as fracking, or hydraulic fracturing technology-may contaminate ground water and even cause small earthquakes. The IEA said that the current situation was "reminiscent of the first wave of US shale growth that, riding the tide of high oil prices in the early years of this decade, made big gains in terms of market share." "Today, having cut costs dramatically, US producers are enjoying a second wave of growth so extraordinary that in 2018 their increase in liquids production could equal global demand growth," the IEA said.

This was "a sobering thought for other producers currently sitting on shut-in production capacity and facing a renewed challenge to their market share," the agency pointed out.

It also noted that trade patterns were changing, and the US was, for example, now exporting to the United Arab Emirates. "Such a development would have seemed incredible a few years ago, now it looks like the shape of things to come," it said.

Nevertheless, the components of the oil market balance are dynamic and a lot could change in the next few months, the IEA cautioned, pointing to the deteriorating situation in Venezuela, an OPEC member. The apparent buoyancy of the global economy was also a factor to watch.

It "could deliver higher demand growth than we currently anticipate. As a result, prices could be maintained at recent levels even as US production rises," the IEA suggested.

All in all, however, "the underlying oil market fundamentals in the early part of 2018 look less supportive for prices," it concluded. Oil prices were slightly firmer on the day in morning trading in Europe yesterday, with WTI futures at $59.50 and Brent Crude at $62.85. —AFP