

# Investment Newsletter – November 2025



## In this issue

- 1 Industry and Regulatory Updates
- 2 ETNZ Spring conference
- 3 AI & renewable driven grid investment
- 4 Interest rate outlook
- 5 New fund website

## Electricity sector hits a new renewable generation record in October

October 2025 marked a milestone for New Zealand's power sector, with renewables dominating generation at nearly 98% for the month—the highest on record. Geothermal, wind, and solar outputs all shattered October benchmarks, supported by wet conditions that boosted hydro storage to 152% of average levels (up 40 percentage points month-on-month). This abundance displaced thermal generation, driving wholesale prices at Otahuhu down to just NZ\$32/MWh, underscoring the system's long energy position and reduced dry-year risks. Demand excluding NZAS rose 1.4% year-on-year, signaling sustained growth from electrification and industrial loads—a positive for grid utilisation.

## Partnering with Community EDBs— ETNZ Spring Conference 2025

We are proud to sponsor this year's Energy Trusts of New Zealand (ETNZ) Spring Conference in Hanmer Springs. ETNZ is the national body representing consumer-owned electricity distribution organisations, comprising regional energy trusts across the country that collectively own and govern local lines businesses on behalf of their communities.

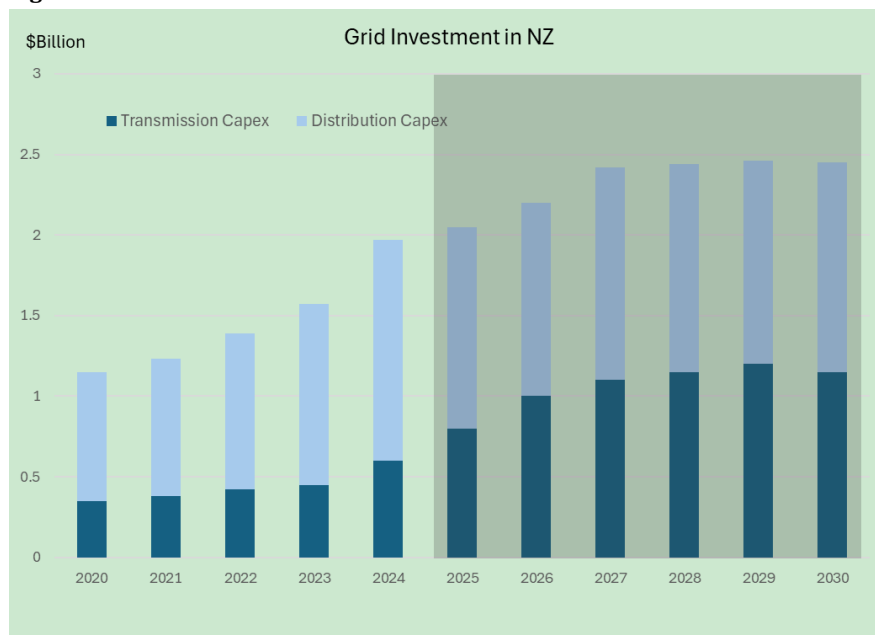
These trust-owned electricity distribution businesses (EDBs) serve more than 1.5 million customers and manage over NZ\$9 billion in network assets, playing a critical role in ensuring reliable, locally governed electricity supply.

The conference provided a valuable platform to engage directly with EDB trustees and executives, and enabled us to share our perspectives on infrastructure financing solutions that can help regional networks meet future capital needs. Our fund is designed to deliver tangible interest-cost savings to community-owned EDBs—supporting reinvestment into network resilience and decarbonisation initiatives, and promoting long-term consumer benefit.

## Grid Investment in New Zealand: Transmission vs Distribution Capex

New Zealand's grid investment is set to rise 92% over the next five years, compared with the previous regulatory pricing cycle. This sharp acceleration aligns with trends across advanced economies. For example, in Europe grid investment is forecast to grow 55% by 2035. In the US, growth of 24% is expected by 2030.

**Figure 1.**



*Source: Commerce Commission DPP4 & RCP4*

While New Zealand's total spend is smaller in absolute terms—around NZ\$21 billion cumulatively between 2020 and 2030—its growth trajectory is significantly steeper, with a compound annual growth rate (CAGR) of 8–10%, versus roughly 3–5% in the US and Europe. This reflects both the scale of renewable generation coming online and the need to future-proof the network against rising electrification and distributed generation.

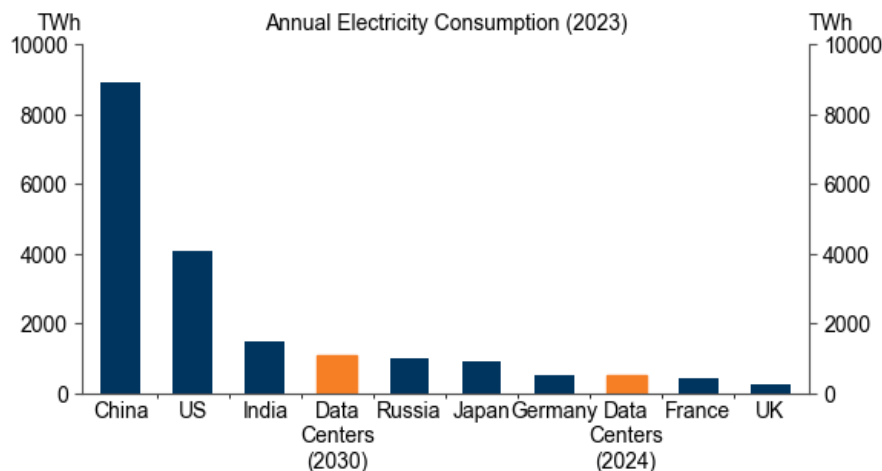
**Transmission vs Distribution:** Distribution continues to dominate investment (~60–70% of the total), but transmission is gaining share, projected to rise from ~25% today to 40–45% by 2030. Key drivers include HVDC upgrades, inter-regional grid strengthening, and renewable integration projects—themes mirrored globally as markets reposition their infrastructure for the energy transition.

For investors, this signals sustained capital formation across regulated utilities, stronger asset-base growth, and increasing opportunities in grid technology, system flexibility, and energy storage solutions.

## AI's Growing Dependence on the Grid

Artificial Intelligence is emerging as one of the largest new structural demand drivers for electricity. Data centres—the physical backbone of AI—already consume more power than France or the UK, and by 2030, global demand is expected to exceed Russia's total consumption and approach that of India.

**Figure 2. AI Is Grounded In Data Centers, Which Draw Significant Power From the Grid**



*Source: EIA, IEA, Goldman Sachs Global Investment Research*

With 99.999% uptime requirements, data centres have near-zero tolerance for outages. More than 90% of operators cite power availability as their top concern, while nearly half identify grid upgrades as the critical enabler. In the US, grid-connection wait times averaged 1–3 years in 2024, extending to up to seven years in key data centre hubs—an early signal of tightening system capacity.

In New Zealand, Auckland is fast emerging as the nation’s data centre hub, with hyperscale investments from AWS, Microsoft, CDC, and Spark accelerating. According to Vector’s 2025 Outlook, additional load demand of 700–800 MW is expected by 2030–2035—a 35–40% increase on Auckland’s current peak load of ~1,900 MW.

This convergence of AI and electrification reinforces the long-term investment thesis for grid infrastructure, distributed generation, and flexibility assets. The grid is becoming the new digital backbone—and the pace of capital deployment is set to follow.

### Investment opportunities

The intersection of AI growth and energy transition presents one of the most compelling multi-decade investment opportunities. Rising grid demand, coupled with decarbonisation imperatives, is driving:

- Expansion of transmission and distribution networks and assets
- Increased investment in storage, flexibility, and grid digitalisation
- Attractive, inflation-linked cash flows for long-term infrastructure investors.

For AIP investors positioned in infrastructure and renewable energy, this evolving dynamic offers both defensive yield and structural growth exposure to one of the defining macro themes of the coming decade.



## Economic & Interest Rate Review and Outlook

The Reserve Bank of New Zealand (RBNZ) reduced the Official Cash Rate (OCR) by 50 basis points in October, with markets anticipating a further 25-basis-point cut to 2.25% in November. This would bring the total easing to 325 basis points from the previous 5.5% peak — a significant policy shift within just over a year.

Much of this monetary stimulus has yet to flow through to the broader economy, as mortgage resets and business lending typically respond with a lag. Interestingly, long-term yields have been slow to adjust, leading to a steepening of the yield curve as investors factor in near-term rate relief but remain cautious about the longer-term inflation outlook.

### Inflation Surprises to the Upside – But Transitory?

Annual CPI inflation accelerated to 3.0% YoY in Q3 2025 (Jul-Sep), up from 2.7% in Q2 and marking the highest since Q2 2024. Quarterly CPI rose a sharp 1.0% QoQ, the strongest in two years (vs. 0.5% prior). These pressures are largely non-tradeable and domestic, tied to electrification demand, renewables integration costs, and council infrastructure levies.

Business insolvencies and loan defaults continued to climb in October. The RBNZ's November Financial Stability Report notes more businesses defaulting on loans, driven by weaker demand in non-essential sectors (e.g., retail, hospitality—profits down 15-20% YoY). The latest Centrix Credit Indicator shows company liquidations are up 26 percent year-on-year.

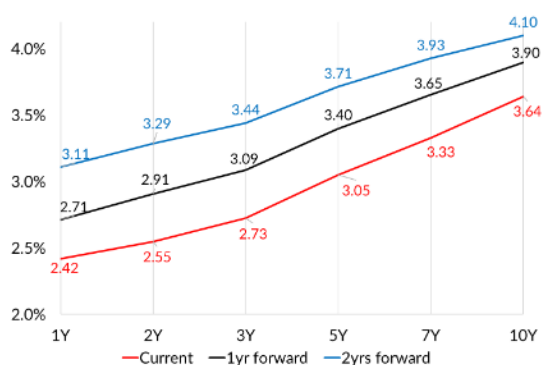
While the OCR is expected to stay low through much of 2026, bond markets are inherently forward-looking. Any signs of renewed economic momentum or recovery in demand could prompt a repricing in longer-dated yields, offering both risk and opportunity for fixed-income investors.

### Wholesale Swap Rates and Funding Conditions

New Zealand dollar swap rates fell sharply following the latest OCR cut, with the 90-day bank bill yield easing to around 2.42% and multi-year tenors, such as the 3-year, trading near 2.7%. Domestic corporate bond yields have continued to drift lower in response to successive RBNZ rate reductions, underpinning strong performance across fixed income portfolios. The easing cycle has also driven a further decline in term deposit rates, reducing returns for savers.

By contrast, longer-term bond yields have been slower to adjust, reflecting persistent headwinds from elevated global bond issuance, ongoing fiscal expansion, and geopolitical uncertainty.

**Figure 2. NZ Swap curve**



**Source: Bloomberg November 5, 2025**



The domestic mortgage market has also seen notable repricing in response to RBNZ's policy easing. However, the full effects are likely to emerge gradually as policy transmission lags work through the housing market and broader economy.

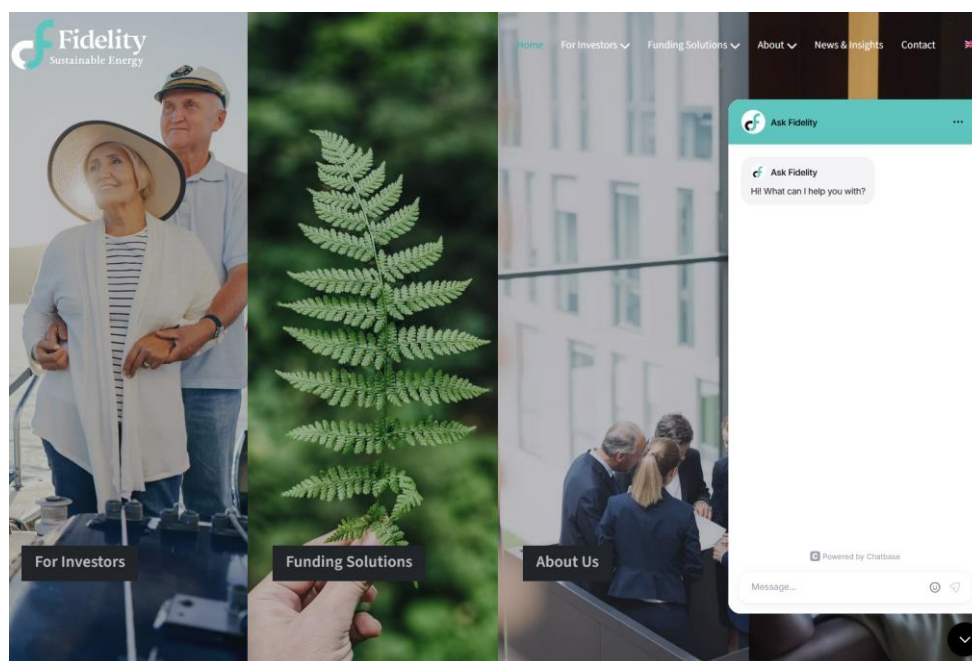
## Investment Outlook

There is a strong structural tailwind for infrastructure investing in NZ — the New Zealand Infrastructure Commission estimates the country faces an infrastructure funding gap of up to NZ\$1 trillion over 30 years to bring assets up to OECD-standards. Going a step further, the government has committed meaningful capital through its 2025 Budget and via a range of enabling programmes including the National Infrastructure Funding and Financing Limited (NIFF) and the Regional Infrastructure Fund to unlock regional, energy, housing and transport infrastructure.

From a fund investor's perspective: the current environment favours short- to mid-duration exposure and high-quality credit, particularly in sectors with stable cash flows such as infrastructure and sustainable assets. Signs of stabilisation in housing and other rate-sensitive sectors may emerge through 2026, suggesting the bulk of the rate cut may already be behind us.

## New fund website launched

We're pleased to announce the launch of our new fund website, [fc-energy.nz](https://fc-energy.nz)— your gateway to the latest insights and updates from our Fund. You can also connect directly with our AI assistant, **\*\*Ask Fidelity\*\***, for instant answers to your questions.



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