

MFS GOVERNMENT MARKETS INCOME TRUST
Form N-Q
April 28, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-5078

MFS GOVERNMENT MARKETS INCOME TRUST
(Exact name of registrant as specified in charter)

500 Boylston Street, Boston, Massachusetts 02116
(Address of principal executive offices) (Zip code)

Susan S. Newton
Massachusetts Financial Services Company
500 Boylston Street
Boston, Massachusetts 02116
(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: February 28, 2006

ITEM 1. SCHEDULE OF INVESTMENTS.

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MFS Government Markets Income Trust
 PORTFOLIO OF INVESTMENTS (Unaudited) 02/28/2006

| Issuer | Par Amount | Value (\$) |
|---|--------------|---------------|
| Bonds 98.5% | | |
| U.S. Bonds 87.6% | | |
| Agency - Other 7.9% | | |
| Financing Corp., 10.7%, 2017 | \$ 4,095,000 | \$ 6,126,263 |
| Financing Corp., 9.4%, 2018 | 3,085,000 | 4,291,059 |
| Financing Corp., 9.8%, 2018 | 4,350,000 | 6,220,870 |
| Financing Corp., 10.35%, 2018 | 6,820,000 | 10,151,543 |
| Financing Corp., STRIPS, 0%, 2017 | 5,000,000 | 2,809,440 |
| | | \$ 29,599,175 |
| Asset Backed & Securitized 0.5% | | |
| Prudential Securities Secured Financing Corp., FRN, 7.2458%, 2013 (a) | \$ 1,819,000 | \$ 1,945,792 |
| Utilities - Electric Power 0.1% | | |
| HQI Transelec Chile S.A., 7.875%, 2011 | \$ 314,000 | \$ 343,026 |
| Mortgage Backed 49.0% | | |
| Fannie Mae, 7.036%, 2007 | \$ 486,918 | \$ 494,279 |
| Fannie Mae, 4.79%, 2012 | 3,522,804 | 3,458,638 |
| Fannie Mae, 5%, 2013 - 2027 | 12,807,864 | 12,672,761 |
| Fannie Mae, 4.8%, 2013 | 348,393 | 340,022 |
| Fannie Mae, 4.845%, 2013 | 1,022,404 | 999,407 |
| Fannie Mae, 5.06%, 2013 | 409,238 | 404,502 |
| Fannie Mae, 4.65%, 2013 | 966,657 | 941,312 |
| Fannie Mae, 4.45%, 2014 | 1,228,028 | 1,171,721 |
| Fannie Mae, 4.771%, 2014 | 2,446,086 | 2,383,000 |
| Fannie Mae, 4.6%, 2014 | 491,089 | 472,697 |

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| Issuer | Par Amount | Value (\$) |
|--------------------------------|-------------------|-------------------|
| Fannie Mae, 4.667%, 2014 | 3,017,561 | 2,918,452 |
| Fannie Mae, 4.518%, 2014 | 643,243 | 616,421 |
| Fannie Mae, 4.77%, 2014 | 501,237 | 486,793 |
| Fannie Mae, 4.847%, 2014 | 3,435,124 | 3,358,120 |
| Fannie Mae, 5.1%, 2014 | 533,803 | 528,806 |
| Fannie Mae, 4.62%, 2015 | 704,944 | 677,799 |
| Fannie Mae, 4.82%, 2015 | 1,473,149 | 1,434,259 |
| Fannie Mae, 4.69%, 2015 | 349,257 | 337,287 |
| Fannie Mae, 4.85%, 2015 | 348,719 | 340,293 |
| Fannie Mae, 4.56%, 2015 | 633,665 | 606,569 |
| Fannie Mae, 4.665%, 2015 | 427,283 | 411,891 |
| Fannie Mae, 4.7%, 2015 | 490,117 | 473,531 |
| Fannie Mae, 4.89%, 2015 | 344,039 | 336,625 |
| Fannie Mae, 4.74%, 2015 | 390,000 | 377,527 |
| Fannie Mae, 4.925%, 2015 | 1,372,947 | 1,347,959 |
| Fannie Mae, 4.87%, 2015 | 369,787 | 361,344 |
| Fannie Mae, 4.815%, 2015 | 543,000 | 528,107 |
| Fannie Mae, 6.5%, 2016 - 2032 | 9,645,319 | 9,897,802 |
| Fannie Mae, 6%, 2016 - 2034 | 14,585,722 | 14,784,462 |
| Fannie Mae, 5.5%, 2017 - 2034 | 71,302,383 | 70,857,959 |
| Fannie Mae, 4.5%, 2019 | 16,520,560 | 16,074,085 |
| Fannie Mae, 4.88%, 2020 | 373,985 | 370,306 |
| Freddie Mac, 4.875%, 2009 | 3,691,000 | 3,688,365 |
| Freddie Mac, 4.5%, 2013 - 2015 | 2,362,531 | 2,336,516 |
| Freddie Mac, 4.375%, 2015 | 2,404,154 | 2,340,797 |
| Freddie Mac, 5%, 2024 - 2025 | 5,623,383 | 5,589,419 |
| Freddie Mac, 5.5%, 2025 - 2035 | 11,287,419 | 11,213,873 |

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| Issuer | Par Amount | Value (\$) |
|---------------------------|-------------------|-------------------|
| Freddie Mac, 6%, 2035 | 1,666,188 | 1,682,890 |
| Freddie Mac, 3.108%, 2035 | 98,407 | 98,004 |

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MFS Government Markets Income Trust
 PORTFOLIO OF INVESTMENTS (Unaudited) 02/28/2006 - continued

| Issuer | Par Amount | Value (\$) |
|---|--------------|----------------|
| Bonds continued | | |
| U.S. Bonds continued | | |
| Mortgage Backed continued | | |
| Ginnie Mae, 5.5%, 2033 | \$ 7,284,143 | \$ 7,312,622 |
| | | \$ 184,727,222 |
| U.S. Government Agencies 14.7% | | |
| Aid to Egypt, 4.45%, 2015 | 1,755,000 | \$ 1,700,595 |
| Aid to Israel, 0%, 2021 - 2024 | 7,830,000 | 3,299,009 |
| Federal Home Loan Bank, 4.625%, 2008 | 9,515,000 | 9,465,903 |
| Freddie Mac, 4.2%, 2007 | 4,358,000 | 4,304,937 |
| Freddie Mac, 4.375%, 2015 | 6,170,000 | 5,923,360 |
| Overseas Private Investment Corp., 0%, 2007 | 1,791,247 | 1,822,594 |
| Small Business Administration, 8.875%, 2011 | 174,384 | 182,646 |
| Small Business Administration, 6.35%, 2021 | 1,439,463 | 1,501,692 |
| Small Business Administration, 6.34%, 2021 | 1,302,710 | 1,359,097 |
| Small Business Administration, 6.44%, 2021 | 1,257,034 | 1,314,309 |
| Small Business Administration, 6.625%, 2021 | 1,341,930 | 1,418,318 |
| Small Business Administration, 4.98%, 2023 | 901,797 | 890,191 |
| Small Business Administration, 4.72%, 2024 | 2,374,481 | 2,305,527 |
| Small Business Administration, 4.34%, 2024 | 1,308,154 | 1,240,764 |
| Small Business Administration, 4.77%, 2024 | 2,340,864 | 2,280,197 |
| Small Business Administration, 5.52%, 2024 | 1,408,449 | 1,429,007 |
| Small Business Administration, 4.86%, 2024 - 2025 | 2,761,342 | 2,699,156 |
| Small Business Administration, 4.87%, 2024 | 1,514,501 | 1,481,125 |

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| Issuer | | Par Amount | Value (\$) |
|---|-----|--------------|----------------|
| Small Business Administration, 5.11%, 2025 | | 1,401,772 | 1,390,546 |
| Small Business Administration, 4.76%, 2025 | | 2,238,000 | 2,168,886 |
| U.S. Department of Housing & Urban Development, 6.36%, 2016 | | 1,580,000 | 1,668,426 |
| U.S. Department of Housing & Urban Development, 6.59%, 2016 | | 5,612,000 | 5,770,651 |
| | | | \$ 55,616,936 |
| U.S. Treasury Obligations 15.4% | | | |
| U.S. Treasury Bonds, 10.375%, 2012 | | \$ 8,400,000 | \$ 9,170,767 |
| U.S. Treasury Bonds, 12%, 2013 | | 3,036,000 | 3,549,035 |
| U.S. Treasury Bonds, 8.75%, 2017 | | 6,100,000 | 8,256,686 |
| U.S. Treasury Bonds, 4.5%, 2036 | | 6,301,000 | 6,297,553 |
| U.S. Treasury Notes, 6.5%, 2010 | | 26,332,000 | 28,075,468 |
| U.S. Treasury Notes, TIPS, 3.875%, 2009 | | 2,635,573 | 2,788,458 |
| | | | \$ 58,137,967 |
| Total U.S. Bonds | | | \$ 330,370,118 |
| Foreign Bonds 10.9% | | | |
| Austria 0.5% | | | |
| Republic of Austria, 5.5%, 2007 | EUR | 1,362,000 | \$ 1,688,735 |
| Brazil 0% | | | |
| Federal Republic of Brazil, 8%, 2018 | | \$ 102,000 | \$ 114,189 |
| Canada 0.1% | | | |
| Government of Canada, 4.5%, 2015 | CAD | 378,000 | \$ 341,500 |
| Cayman Islands 0% | | | |
| Petroleum Export Peloil, 5.265%, 2011 (a) | | \$ 100,000 | \$ 97,330 |
| Chile 0.3% | | | |
| Republic of Chile, FRN, 5.06%, 2008 | | \$ 1,057,000 | \$ 1,062,285 |

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MFS Government Markets Income Trust
 PORTFOLIO OF INVESTMENTS (Unaudited) 02/28/2006 - continued

| Issuer | | Par Amount | Value (\$) |
|--|-----|------------|--------------|
| Bonds continued | | | |
| Foreign Bonds continued | | | |
| Finland 0.8% | | | |
| Republic of Finland, 5.375%, 2013 | EUR | 2,227,000 | \$ 2,994,638 |
| France 1.0% | | | |
| Republic of France, 4.75%, 2007 | EUR | 2,462,000 | \$ 3,008,584 |
| Republic of France, 4.75%, 2012 | EUR | 251,000 | 323,808 |
| Republic of France, 6%, 2025 | EUR | 318,000 | 499,659 |
| | | | \$ 3,832,051 |
| Germany 1.6% | | | |
| Federal Republic of Germany, 3.5%, 2008 | EUR | 1,668,000 | \$ 2,009,555 |
| Federal Republic of Germany, 3.75%, 2015 | EUR | 1,104,000 | 1,345,911 |
| Federal Republic of Germany, 6.25%, 2030 | EUR | 195,000 | 324,747 |
| KfW Bankengruppe, FRN, 2.563%, 2007 | EUR | 874,000 | 1,042,335 |
| Landesbank Baden-Wuerttemberg, FRN, 2.508%, 2007 | EUR | 290,000 | 346,075 |
| Landesbank Baden-Wuerttemberg, FRN, 2.594%, 2007 | EUR | 272,000 | 324,615 |
| Landesbank Baden-Wuerttemberg, FRN, 2.704%, 2007 | EUR | 510,000 | 608,763 |
| | | | \$ 6,002,001 |
| Ireland 0.9% | | | |
| Republic of Ireland, 4.25%, 2007 | EUR | 2,387,000 | \$ 2,905,221 |
| Republic of Ireland, 4.6%, 2016 | EUR | 254,000 | 331,299 |
| | | | \$ 3,236,520 |
| Malaysia 0.1% | | | |
| Petronas Capital Ltd., 7.875%, 2022 | | \$ 433,000 | \$ 538,449 |

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| Issuer | | Par Amount | Value (\$) |
|--|-----|--------------|--------------|
| Mexico 0.8% | | | |
| Pemex Project Funding Master Trust, 9.375%, 2008 | | \$ 1,072,000 | \$ 1,177,056 |
| United Mexican States, 8.125%, 2019 | | 1,040,000 | 1,287,000 |
| United Mexican States, 8.3%, 2031 | | 128,000 | 167,680 |
| United Mexican States, 6.75%, 2034 | | 312,000 | 348,660 |
| | | | \$ 2,980,396 |
| Netherlands 0.8% | | | |
| Kingdom of Netherlands, 5.75%, 2007 | EUR | 1,169,000 | \$ 1,432,767 |
| Kingdom of Netherlands, 3.75%, 2009 | EUR | 1,383,000 | 1,681,173 |
| | | | \$ 3,113,940 |
| New Zealand 0.7% | | | |
| Government of New Zealand, 6.5%, 2013 | NZD | 3,330,000 | \$ 2,300,112 |
| Government of New Zealand, 6%, 2015 | NZD | 204,000 | 137,555 |
| Government of New Zealand, 6%, 2017 | NZD | 519,000 | 351,124 |
| | | | \$ 2,788,791 |
| Panama 0.2% | | | |
| Republic of Panama, 9.375%, 2029 | | \$ 677,000 | \$ 886,870 |
| Russia 0.4% | | | |
| Russian Federation, 3%, 2008 | | \$ 1,474,000 | \$ 1,400,890 |
| South Africa 0.3% | | | |
| Republic of South Africa, 9.125%, 2009 | | \$ 855,000 | \$ 951,188 |
| Spain 0.7% | | | |
| Kingdom of Spain, 6%, 2008 | EUR | 1,293,000 | \$ 1,627,185 |
| Kingdom of Spain, 5.35%, 2011 | EUR | 771,000 | 1,014,096 |
| | | | \$ 2,641,281 |
| United Kingdom 1.7% | | | |

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| Issuer | | Par Amount | | Value (\$) |
|--|-----|-------------------|----|-------------------|
| Network Rail MTN Finance PLC, 2.628%, 2007 | EUR | 605,000 | \$ | 722,268 |

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MFS Government Markets Income Trust
 PORTFOLIO OF INVESTMENTS (Unaudited) 02/28/2006 - continued

| Issuer | | Par Amount | Value (\$) |
|--------------------------------------|-----|------------|-----------------------|
| Bonds continued | | | |
| Foreign Bonds continued | | | |
| United Kingdom continued | | | |
| United Kingdom Treasury, 5.75%, 2009 | GBP | 1,279,000 | \$ 2,356,133 |
| United Kingdom Treasury, 8%, 2015 | GBP | 1,460,000 | 3,350,314 |
| | | | \$ 6,428,715 |
| Total Foreign Bonds | | | \$ 41,099,769 |
| Total Bonds | | | \$ 371,469,887 |

| Issue/Strike Price/Expiration | | Number of Contracts | Value (\$) |
|--|--|---------------------|------------|
| Call Options Purchased 0.0% | | | |
| U.S. Treasury Notes 10yr Long Futures - May 2006 @ \$109 (f) | | 73 | \$ 29,656 |
| Put Options Purchased 0.0% | | | |
| U.S. Treasury Notes 10yr Long Futures - May 2006 @ \$109 (f) | | 73 | \$ 109,500 |

| Issuer | | Par Amount | Value (\$) |
|---|--|--------------|-----------------------|
| Repurchase Agreement 0.8% | | | |
| Goldman Sachs, 4.55%, dated 2/28/06, due 3/01/06, total to be received \$2,827,357 (secured by various U.S. Treasury and Federal Agency obligations in a jointly traded account) | | \$ 2,827,000 | \$ 2,827,000 |
| Total Investments | | | \$ 374,436,043 |
| Other Assets, Less Liabilities 0.7% | | | 2,662,273 |
| Net Assets 100.0% | | | \$ 377,098,316 |

- (f) All or a portion of the security has been segregated as collateral for an open futures contract.
- (a) SEC Rule 144A restriction.

The following abbreviations are used in the Portfolio of Investments and are defined:
 FRN Floating Rate Note. The interest rate is the rate in effect as of period end.
 STRIPS Separate Trading of Registered Interest and Principal of Securities
 TIPS Treasury Inflation Protected Security

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Abbreviations have been used throughout this report to indicate amounts shown in currencies other than the U.S. dollar. All amounts are stated in U.S. dollars unless otherwise indicated. A list of abbreviations is shown below:

AUD Australian Dollar
CAD Canadian Dollar
DKK Danish Krone
EUR Euro
GBP British Pound
NOK Norwegian Krone
NZD New Zealand Dollar

See attached schedules. For more information see notes to financial statements as disclosed in the most recent semiannual or annual report.

MFS Government Markets Income Trust
Supplemental Schedules (Unaudited) 02/28/2006

(1) Portfolio Securities

The cost and unrealized appreciation and depreciation in the value of the investments owned by the trust, as computed on a federal income tax basis, are as follows:

| | | |
|--|----|--------------|
| Aggregate Cost | \$ | 383,071,217 |
| Gross unrealized appreciation | \$ | 1,936,697 |
| Gross unrealized depreciation | | (10,571,871) |
| Net unrealized appreciation (depreciation) | \$ | (8,635,174) |

Aggregate cost includes prior fiscal year end tax adjustments.

(2) Financial Instruments

Derivatives

Forward Foreign Currency Exchange Contracts

Sales and Purchases in the table below are reported by currency.

| | Contracts to Deliver/Receive | Settlement Date | In Exchange For | Contracts at Value | Net Unrealized Appreciation (Depreciation) |
|-------------------------|---|------------------------|------------------------|-------------------------------|---|
| <u>Sales</u> | | | | | |
| AUD | 227,038 | 4/07/06 | \$ 169,253 | \$ 168,683 | \$ 570 |
| EUR | 17,864,927 | 3/27/06 - 4/18/06 | 21,315,162 | 21,383,482 | (68,320) |
| GBP | 3,210,989 | 3/30/06 | 5,713,137 | 5,639,070 | 74,067 |
| NZD | 4,753,650 | 4/07/06 | 3,262,436 | 3,144,598 | 117,838 |
| | | | \$ 30,459,988 | \$ 30,335,833 | \$ 124,155 |
| <u>Purchases</u> | | | | | |
| AUD | 227,038 | 4/07/06 | \$ 168,276 | \$ 168,683 | \$ 407 |
| CAD | 421,321 | 3/20/06 | 363,537 | 370,702 | 7,165 |
| DKK | 391,346 | 3/13/06 | 63,841 | 62,650 | (1,191) |
| EUR | 450,254 | 3/20/06 | 547,032 | 538,049 | (8,983) |
| NOK | 6,115,801 | 3/13/06 | 924,836 | 908,171 | (16,665) |
| NZD | 549,955 | 4/07/06 | 373,672 | 363,802 | (9,870) |
| | | | \$ 2,441,194 | \$ 2,412,057 | \$ (29,137) |

At February 28, 2006, forward foreign currency purchases and sales under master netting agreements excluded above amounted to a net payable of \$56,630 with Merrill Lynch International.

MFS Government Markets Income Trust
Supplemental Schedules (Unaudited) 02/28/2006 - continued

Futures Contracts

| | Contracts | Value | Expiration Date | Unrealized Appreciation (Depreciation) |
|---------------------------------|------------------|--------------|------------------------|---|
| U.S. Treasury Note 10 yr (Long) | 56 | \$ 6,042,750 | Jun-06 | \$ 13,367 |
| U.S. Treasury Note 5 yr (Short) | 54 | 5,680,125 | Jun-06 | (7,783) |
| U.S. Treasury Bond (Short) | 59 | 6,672,531 | Jun-06 | (11,457) |
| | | | | \$ (5,873) |

At February 28, 2006, the trust had sufficient cash and/or securities to cover any margin requirements under these derivative contracts.

ITEM 2. CONTROLS AND PROCEDURES.

- (a) Based upon their evaluation of the effectiveness of the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as conducted within 90 days of the filing date of this Form N-Q, the registrant's principal financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.
- (b) There were no changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2): Attached hereto.

Notice

A copy of the Amended and Restated Declaration of Trust of the Registrant is on file with the Secretary of State of the Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees or shareholders individually, but are binding only upon the assets and property of the respective constituent series of the Registrant.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: MFS GOVERNMENT MARKETS INCOME TRUST

By (Signature and Title)* MARIA F. DWYER
 Maria F. Dwyer, President

Date: April 24, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* MARIA F. DWYER
 Maria F. Dwyer, President (Principal Executive Officer)

Date: April 24, 2006

By (Signature and Title)* TRACY ATKINSON
 Tracy Atkinson, Treasurer (Principal Financial Officer and Accounting Officer)

Date: April 24, 2006

* Print name and title of each signing officer under his or her signature.