

MFS GOVERNMENT MARKETS INCOME TRUST  
Form N-Q  
October 26, 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

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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

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Date of fiscal year end: November 30

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Date of reporting period: August 31, 2006

ITEM 1. SCHEDULE OF INVESTMENTS.

MFS(R) Government Markets Income Trust

8/31/06

Quarterly portfolio holdings

[graphic omitted]

M F S(R)  
INVESTMENT MANAGEMENT

MFS Government Markets Income Trust  
PORTFOLIO OF INVESTMENTS (Unaudited) 08/31/2006

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## ISSUER

BONDS - 97.3%

U.S. BONDS - 86.6%

AGENCY - OTHER - 7.9%

Financing Corp., 10.7%, 2017

\$

Financing Corp., 9.4%, 2018

Financing Corp., 9.8%, 2018

Financing Corp., 10.35%, 2018

Financing Corp., STRIPS, 0%, 2017

ASSET BACKED & SECURITIZED - 0.5%

Prudential Securities Secured Financing Corp., FRN, 7.4499%, 2013 (z)

\$

MORTGAGE BACKED - 48.9%

Fannie Mae, 7.007%, 2007

\$

Fannie Mae, 4.79%, 2012

Fannie Mae, 4.543%, 2013

Fannie Mae, 4.65%, 2013

Fannie Mae, 4.8%, 2013

Fannie Mae, 4.845%, 2013

Fannie Mae, 5%, 2013 - 2027

Fannie Mae, 5.06%, 2013

Fannie Mae, 5.37%, 2013

Fannie Mae, 4.45%, 2014

Fannie Mae, 4.519%, 2014

Fannie Mae, 4.6%, 2014

Fannie Mae, 4.667%, 2014

Fannie Mae, 4.77%, 2014

Fannie Mae, 4.847%, 2014

Fannie Mae, 4.871%, 2014

Fannie Mae, 5.1%, 2014

Fannie Mae, 4.56%, 2015

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Fannie Mae, 4.62%, 2015

Fannie Mae, 4.665%, 2015

Fannie Mae, 4.69%, 2015

Fannie Mae, 4.7%, 2015

Fannie Mae, 4.74%, 2015

Fannie Mae, 4.815%, 2015

Fannie Mae, 4.82%, 2015

Fannie Mae, 4.85%, 2015

Fannie Mae, 4.87%, 2015

Fannie Mae, 4.89%, 2015

Fannie Mae, 4.925%, 2015

Fannie Mae, 5.48%, 2015

Fannie Mae, 5.423%, 2016

Fannie Mae, 6.5%, 2016 - 2036

Fannie Mae, 5.5%, 2017 - 2035

Fannie Mae, 6%, 2017 - 2034

Fannie Mae, 4.5%, 2019

Fannie Mae, 4.88%, 2020

Freddie Mac, 4.5%, 2013 - 2015

Freddie Mac, 4.375%, 2015

Freddie Mac, 5%, 2016 - 2025

Freddie Mac, 6%, 2021 - 2035

Freddie Mac, 5.5%, 2025 - 2035

Ginnie Mae, 5.5%, 2033

U.S. GOVERNMENT AGENCIES - 14.6%

Aid-Egypt, 4.45%, 2015

\$

Aid-Israel, 0%, 2021 - 2024

Fannie Mae, 4.625%, 2013

Farmer Mac, 5.5%, 2011 (a)

Federal Home Loan Bank, 4.5%, 2007

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Federal Home Loan Bank, 4.625%, 2008  
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Freddie Mac, 4.2%, 2007  
-----

Overseas Private Investment Corp., 0%, 2007  
-----

Small Business Administration, 8.875%, 2011  
-----

Small Business Administration, 6.34%, 2021  
-----

Small Business Administration, 6.35%, 2021  
-----

Small Business Administration, 6.44%, 2021  
-----

Small Business Administration, 6.625%, 2021  
-----

Small Business Administration, 4.98%, 2023  
-----

Small Business Administration, 4.34%, 2024  
-----

Small Business Administration, 4.72%, 2024  
-----

Small Business Administration, 4.77%, 2024  
-----

Small Business Administration, 4.86%, 2024 - 2025  
-----

Small Business Administration, 4.87%, 2024  
-----

Small Business Administration, 5.52%, 2024  
-----

Small Business Administration, 4.76%, 2025  
-----

Small Business Administration, 5.11%, 2025  
-----

U.S. Department of Housing & Urban Development, 6.36%, 2016  
-----

U.S. Department of Housing & Urban Development, 6.59%, 2016  
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-----  
U.S. TREASURY OBLIGATIONS - 14.7%  
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U.S. Treasury Bonds, 10.375%, 2012

\$

U.S. Treasury Bonds, 12%, 2013  
-----

U.S. Treasury Bonds, 8.75%, 2017  
-----

U.S. Treasury Bonds, 4.5%, 2036  
-----

U.S. Treasury Notes, 6.5%, 2010 (f)  
-----

U.S. Treasury Notes, 4.25%, 2015  
-----

U.S. Treasury Notes, TIPS, 3.875%, 2009  
-----

-----  
Total U.S. Bonds  
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FOREIGN BONDS - 10.7%

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|  |  |     |
|--|--|-----|
| -----                                      |  |     |
| AUSTRALIA - 0.0%                           |  |     |
| Commonwealth of Australia, 6.5%, 2013      |  | AUD |
| -----                                      |  |     |
| AUSTRIA - 0.5%                             |  |     |
| Republic of Austria, 5.5%, 2007            |  | EUR |
| -----                                      |  |     |
| BRAZIL - 0.0%                              |  |     |
| Federative Republic of Brazil, 8%, 2018    |  | \$  |
| -----                                      |  |     |
| CANADA - 0.1%                              |  |     |
| Government of Canada, 4.5%, 2015           |  | CAD |
| Government of Canada, 8%, 2023             |  | CAD |
| -----                                      |  |     |
| CAYMAN ISLANDS - 0.0%                      |  |     |
| Petroleum Export/Cayman, 5.265%, 2011 (a)  |  | \$  |
| -----                                      |  |     |
| CHILE - 0.4%                               |  |     |
| HQI Transelec Chile S.A., 7.875%, 2011     |  | \$  |
| Republic of Chile, FRN, 5.9%, 2008         |  |     |
| -----                                      |  |     |
| DENMARK - 0.1%                             |  |     |
| Kingdom of Denmark, 4%, 2015               |  | DKK |
| -----                                      |  |     |
| FINLAND - 0.9%                             |  |     |
| Republic of Finland, 5.375%, 2013          |  | EUR |
| -----                                      |  |     |
| FRANCE - 1.1%                              |  |     |
| Republic of France, 4.75%, 2007            |  | EUR |
| Republic of France, 4.75%, 2012            |  | EUR |
| Republic of France, 6%, 2025               |  | EUR |
| -----                                      |  |     |
| GERMANY - 1.5%                             |  |     |
| Federal Republic of Germany, 3.5%, 2008    |  | EUR |
| Federal Republic of Germany, 3.75%, 2015   |  | EUR |
| Federal Republic of Germany, 6.25%, 2030   |  | EUR |
| KfW Bankengruppe, FRN, 3.164%, 2007        |  | EUR |
| Landesbank Baden-Wurttemberg, 3.217%, 2007 |  | EUR |

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|  |     |
|--|-----|
| Landesbank Baden-Wurttemberg, FRN, 3.092%, 2007  | EUR |
| Landesbank Baden-Wuttemberg, FRN, 2.961%, 2007   | EUR |
| IRELAND - 1.2%                                   |     |
| Republic of Ireland, 4.25%, 2007                 | EUR |
| Republic of Ireland, 4.6%, 2016                  | EUR |
| MALAYSIA - 0.1%                                  |     |
| Petronas Capital Ltd., 7.875%, 2022              | \$  |
| MEXICO - 0.7%                                    |     |
| Pemex Project Funding Master Trust, 9.375%, 2008 | \$  |
| United Mexican States, 8.125%, 2019              |     |
| United Mexican States, 8.3%, 2031                |     |
| NETHERLANDS - 0.9%                               |     |
| Kingdom of Netherlands, 5.75%, 2007              | EUR |
| Kingdom of Netherlands, 3.75%, 2009              | EUR |
| NORWAY - 0.0%                                    |     |
| Kingdom of Norway, 5%, 2015                      | NOK |
| PANAMA - 0.2%                                    |     |
| Republic of Panama, 9.375%, 2029                 | \$  |
| RUSSIA - 0.4%                                    |     |
| Russian Federation, 3%, 2008                     | \$  |
| SOUTH AFRICA - 0.3%                              |     |
| Republic of South Africa, 9.125%, 2009           | \$  |
| SPAIN - 0.8%                                     |     |
| Kingdom of Spain, 6%, 2008                       | EUR |
| Kingdom of Spain, 5.35%, 2011                    | EUR |
| UNITED KINGDOM - 1.5%                            |     |

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|   |     |
|---|-----|
| Network Rail MTN Finance PLC, FRN, 3.255%, 2007 | EUR |
| United Kingdom Treasury, 5.75%, 2009            | GBP |
| United Kingdom Treasury, 5%, 2012               | GBP |
| United Kingdom Treasury, 8%, 2015               | GBP |

Total Foreign Bonds

TOTAL BONDS

REPURCHASE AGREEMENTS - 2.2%

Merrill Lynch & Co., 5.28%, dated 8/31/06, due 9/01/06, total to be received \$8,260,211 (secured by various U.S. Treasury and Federal Agency obligations and Mortgage Backed securities in a jointly traded account) \$

TOTAL INVESTMENTS (k)

OTHER ASSETS, LESS LIABILITIES - 0.5%

NET ASSETS - 100.0%

- (a) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities transactions exempt from registration, normally to qualified institutional buyers. At period end these securities was \$3,151,381, representing 0.9% of net assets.
- (f) All or a portion of the security has been segregated as collateral for an open futures contract.
- (k) As of August 31, 2006, the trust held securities fair valued in accordance with the policies of the Trustees, aggregating \$355,829,300 and 96.74% of market value, of which 96.57% of market value was obtained from an independent pricing service using an evaluated bid.
- (z) Restricted securities are not registered under the Securities Act of 1933 and are subject to restrictions. These securities generally may be resold in transactions exempt from registration or to the public if subsequently registered. Disposal of these securities may involve time-consuming negotiations and an acceptable price may be difficult. The trust holds the following restricted security:

| RESTRICTED SECURITIES   | ACQUISITION<br>DATE | ACQUISITION<br>COST | CURRENT<br>MARKET VALUE | TOTAL<br>NET |
|---|---------------------|---------------------|-------------------------|--------------|
| Prudential Securities Secured Financing Corp., FRN, 7.4499%, 2013 | 12/06/04            | \$2,019,445         | \$1,923,107             |              |

The following abbreviations are used in this report 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

Abbreviations indicate amounts shown in currencies other than the U.S. dollar. All amounts are stated 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

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

MFS GOVERNMENT MARKETS INCOME TRUST

SUPPLEMENTAL SCHEDULES (UNAUDITED) 08/31/2006

### (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                             | \$377,408,617  |
|  | =====          |
| Gross unrealized appreciation              | \$ 2,402,346   |
| Gross unrealized depreciation              | (11,985,283)   |
|  | -----          |
| Net unrealized appreciation (depreciation) | \$ (9,582,937) |
|  | =====          |

### (2) FINANCIAL INSTRUMENTS

#### DERIVATIVES

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#### FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS

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

|                      | CONTRACTS TO<br>DELIVER/RECEIVE | SETTLEMENT DATE     | IN EXCHANGE FOR | CONTRACTS<br>AT VALUE | NET U<br>APPRE<br>(DEPR |
|----------------------|---------------------------------|---------------------|-----------------|-----------------------|-------------------------|
| -----                |                                 |                     |                 |                       |                         |
| <b>SALES</b>         |                                 |                     |                 |                       |                         |
| -----                |                                 |                     |                 |                       |                         |
| AUD                  | 138,988                         | 10/10/06            | \$ 105,673      | \$ 106,070            | \$ (                    |
| DKK                  | 956,487                         | 10/25/06            | 164,538         | 164,840               | (                       |
| EUR                  | 20,970,926                      | 10/04/06 - 10/20/06 | 27,015,550      | 26,948,929            | 66,                     |
| GBP                  | 2,323,571                       | 10/02/06            | 4,340,804       | 4,428,167             | (87,                    |
| NOK                  | 998,635                         | 9/11/06             | 159,020         | 158,101               | (9,                     |
| NZD                  | 248,939                         | 10/10/06            | 153,623         | 162,815               | (9,                     |
|                      |                                 |                     | -----           | -----                 | -----                   |
|                      |                                 |                     | \$31,939,208    | \$31,968,922          | \$ (29,                 |
|                      |                                 |                     | =====           | =====                 | =====                   |
| <br><b>PURCHASES</b> |                                 |                     |                 |                       |                         |
| -----                |                                 |                     |                 |                       |                         |
| EUR                  | 263,734                         | 10/04/06            | \$ 336,487      | \$ 338,654            | \$ 2,                   |
| NZD                  | 261,094                         | 10/10/06            | 166,244         | 170,765               | 4,                      |
|                      |                                 |                     | -----           | -----                 | -----                   |
|                      |                                 |                     | \$ 502,731      | \$ 509,419            | \$ 6,                   |
|                      |                                 |                     | =====           | =====                 | =====                   |

At August 31, 2006, forward foreign currency purchases and sales under master netting agreements above amounted to a net payable of \$3,984 with Merrill Lynch International.

#### FUTURES CONTRACTS



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|                                 | CONTRACTS | VALUE       | EXPIRATION DATE | UNREALIZED APPRECIATION (DEPRECIATION) |
|---------------------------------|-----------|-------------|-----------------|--|
| U.S. Treasury Bond 10 yr (Long) | 31        | \$3,328,625 | Dec-06          | \$ 6,431                               |
| U.S. Treasury Note 5 yr (Short) | 54        | 5,675,906   | Dec-06          | (14,533)                               |
| U.S. Treasury Bond (Short)      | 59        | 6,552,688   | Dec-06          | (14,957)                               |
|                                 |           |             |                 | \$ (23,059)                            |
|                                 |           |             |                 | =====                                  |

At August 31, 2006, the trust had sufficient cash and/or securities to cover any commitments under 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

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-----  
By (Signature and Title)\* MARIA F. DWYER

-----  
Maria F. Dwyer, President

Date: October 19, 2006  
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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: October 19, 2006  
-----

By (Signature and Title)\* TRACY ATKINSON

-----  
Tracy Atkinson, Treasurer (Principal Financial Officer and Accounting Officer)

Date: October 19, 2006  
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\* Print name and title of each signing officer under his or her signature.