

MFS GOVERNMENT MARKETS INCOME TRUST
Form N-Q
October 29, 2008

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: August 31, 2008

ITEM 1. SCHEDULE OF INVESTMENTS.

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MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 8/31/08

| Issuer | Shares/Par | Value (\$) |
|--|--------------|---------------|
| Bonds 97.7% | | |
| U.S. Bonds 94.0% | | |
| Agency Other 13.0% | | |
| Financing Corp., 10.7%, 2017 | \$ 4,095,000 | \$ 5,928,680 |
| Financing Corp., 9.4%, 2018 | 3,085,000 | 4,199,894 |
| Financing Corp., 9.8%, 2018 | 4,350,000 | 6,074,349 |
| Financing Corp., 10.35%, 2018 | 6,820,000 | 9,882,555 |
| Financing Corp., STRIPS, 0%, 2017 | 5,000,000 | 3,349,940 |
| | | \$ 29,435,418 |
| Asset Backed & Securitized 1.1% | | |
| Merrill Lynch Mortgage Trust, FRN, 6.022%, 2050 | \$ 750,000 | \$ 461,185 |
| Prudential Securities Secured Financing Corp., FRN, 7.285%, 2013 (z) | 1,819,000 | 1,178,739 |
| Wachovia Bank Commercial Mortgage Trust, FRN, 6.099%, 2051 | 1,000,000 | 857,966 |
| | | \$ 2,497,890 |
| Brokerage & Asset Managers 0.4% | | |
| Lehman Brothers Holdings, Inc., 7.5%, 2038 (a) | \$ 209,000 | \$ 185,088 |
| Merrill Lynch & Co., Inc., 6.05%, 2016 | 750,000 | 679,391 |
| | | \$ 864,479 |
| Building 0.2% | | |
| CRH America, Inc., 8.125%, 2018 | \$ 397,000 | \$ 404,904 |
| Food & Beverages 0.5% | | |
| Dr. Pepper Snapple Group, Inc., 6.82%, 2018 (n) | \$ 231,000 | \$ 235,219 |
| Kraft Foods, Inc., 6.125%, 2018 | 960,000 | 941,687 |
| | | \$ 1,176,906 |
| Mortgage Backed 62.5% | | |
| Fannie Mae, 4.79%, 2012 | \$ 3,522,804 | \$ 3,543,835 |
| Fannie Mae, 4.543%, 2013 | 826,890 | 812,645 |
| Fannie Mae, 5%, 2013 - 2027 | 4,726,508 | 4,756,447 |
| Fannie Mae, 5.06%, 2013 | 391,522 | 391,461 |
| Fannie Mae, 5.37%, 2013 | 1,018,323 | 1,035,456 |
| Fannie Mae, 4.589%, 2014 | 729,291 | 712,476 |
| Fannie Mae, 4.609%, 2014 | 1,874,626 | 1,833,667 |
| Fannie Mae, 4.77%, 2014 | 480,861 | 472,518 |
| Fannie Mae, 4.848%, 2014 | 2,866,041 | 2,830,767 |
| Fannie Mae, 4.871%, 2014 | 1,763,577 | 1,747,295 |
| Fannie Mae, 5.1%, 2014 | 516,055 | 514,533 |
| Fannie Mae, 4.7%, 2015 | 471,983 | 460,095 |
| Fannie Mae, 4.74%, 2015 | 382,387 | 373,372 |
| Fannie Mae, 4.78%, 2015 | 535,468 | 522,779 |
| Fannie Mae, 4.815%, 2015 | 543,000 | 531,657 |
| Fannie Mae, 4.82%, 2015 | 1,433,808 | 1,405,888 |
| Fannie Mae, 4.85%, 2015 | 336,436 | 330,673 |
| Fannie Mae, 4.86%, 2015 | 158,638 | 156,249 |
| Fannie Mae, 4.87%, 2015 | 356,433 | 350,214 |
| Fannie Mae, 4.89%, 2015 | 399,446 | 393,259 |
| Fannie Mae, 4.926%, 2015 | 1,319,771 | 1,303,018 |
| Fannie Mae, 5.466%, 2015 | 882,595 | 894,584 |
| Fannie Mae, 5.09%, 2016 | 500,000 | 493,006 |
| Fannie Mae, 5.423%, 2016 | 787,414 | 795,603 |
| Fannie Mae, 5.845%, 2016 | 453,305 | 468,638 |
| Fannie Mae, 6.5%, 2016 - 2036 | 6,665,160 | 6,910,895 |
| Fannie Mae, 5.05%, 2017 | 525,300 | 516,512 |
| Fannie Mae, 5.3%, 2017 | 590,722 | 588,962 |

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| | | |
|-------------------------------|------------|------------|
| Fannie Mae, 5.5%, 2017 - 2035 | 54,301,286 | 54,029,129 |
| Fannie Mae, 6%, 2017 - 2037 | 16,518,309 | 16,782,421 |
| Fannie Mae, 4.88%, 2020 | 326,157 | 319,006 |

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MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 8/31/08 - continued

| Issuer | Shares/Par | Value (\$) |
|---|--------------|----------------|
| Bonds continued | | |
| U.S. Bonds continued | | |
| Mortgage Backed continued | | |
| Freddie Mac, 4.5%, 2015 - 2021 | 502,921 | \$ 503,878 |
| Freddie Mac, 5%, 2016 - 2027 | 6,712,320 | 6,762,102 |
| Freddie Mac, 6%, 2021 - 2038 | 1,950,791 | 1,974,850 |
| Freddie Mac, 5.5%, 2022 - 2035 | 12,422,300 | 12,404,703 |
| Freddie Mac, 3.75%, 2024 | 442,779 | 441,542 |
| Freddie Mac, 4%, 2024 | 472,032 | 471,645 |
| Freddie Mac, 6.5%, 2037 | 2,593,906 | 2,667,223 |
| Ginnie Mae, 5.5%, 2033 - 2038 | 8,168,411 | 8,178,792 |
| Ginnie Mae, 5.612%, 2058 | 1,144,616 | 1,150,160 |
| Ginnie Mae, 6.36%, 2058 | 1,029,459 | 1,066,174 |
| | | \$ 141,898,129 |
| Municipals 3.5% | | |
| California Educational Facilities Authority Rev. (Stanford University), T-1, 5%, 2039 | \$ 3,075,000 | \$ 3,208,363 |
| Illinois Regional Transportation Authority, A, N, 5.75%, 2034 | 1,125,000 | 1,271,374 |
| Massachusetts Bay Transportation Authority, Sales Tax Rev., A-1, 5.25%, 2028 | 1,045,000 | 1,148,465 |
| Massachusetts Water Resources Authority Rev., B, N, 5.25%, 2035 | 1,310,000 | 1,406,770 |
| Minnesota Public Facilities Authority, Water Pollution Control Rev., B, 5%, 2018 | 895,000 | 990,434 |
| | | \$ 8,025,406 |
| Other Banks & Diversified Financials 0.3% | | |
| UBS Preferred Funding Trust V, 6.243% to 2016, FRN to 2049 | \$ 750,000 | \$ 646,427 |
| Real Estate 0.3% | | |
| Simon Property Group, Inc., REIT, 5.875%, 2017 | \$ 750,000 | \$ 698,474 |
| U.S. Government Agencies 5.8% | | |
| Aid-Egypt, 4.45%, 2015 | 1,755,000 | \$ 1,794,330 |
| Farmer Mac, 5.5%, 2011 (n) | 3,010,000 | 3,169,292 |
| Small Business Administration, 8.875%, 2011 | 105,321 | 106,691 |
| Small Business Administration, 6.34%, 2021 | 827,273 | 847,882 |
| Small Business Administration, 6.35%, 2021 | 950,496 | 974,300 |
| Small Business Administration, 6.44%, 2021 | 776,804 | 797,556 |
| Small Business Administration, 6.625%, 2021 | 921,198 | 957,966 |
| Small Business Administration, 5.52%, 2024 | 1,086,568 | 1,084,586 |
| U.S. Department of Housing & Urban Development, 6.36%, 2016 | 1,580,000 | 1,661,446 |
| U.S. Department of Housing & Urban Development, 6.59%, 2016 | 1,676,000 | 1,698,857 |
| | | \$ 13,092,906 |
| U.S. Treasury Obligations 6.4% | | |
| U.S. Treasury Bonds, 11.25%, 2015 | \$ 499,000 | \$ 727,955 |
| U.S. Treasury Bonds, 4.75%, 2037 | 2,000,000 | 2,101,876 |
| U.S. Treasury Bonds, 4.375%, 2038 | 3,225,000 | 3,202,073 |
| U.S. Treasury Notes, 2.625%, 2010 | 3,055,000 | 3,073,617 |
| U.S. Treasury Notes, 4.125%, 2012 (f) | 3,413,000 | 3,571,650 |
| U.S. Treasury Notes, 4.75%, 2014 | 1,827,000 | 1,981,725 |
| | | \$ 14,658,896 |
| Total U.S. Bonds | | \$ 213,399,835 |
| Foreign Bonds 3.7% | | |
| Canada 0.8% | | |
| Canadian Pacific Railway Co., 6.5%, 2018 | \$ 830,000 | \$ 817,382 |
| Rogers Communications, Inc., 6.8%, 2018 | 1,000,000 | 1,014,076 |
| | | \$ 1,831,458 |

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Chile 0.8%

Codeco, Inc., 6.15%, 2036

\$ 1,092,000

\$ 1,043,622

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MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 8/31/08 - continued

| Issuer | Shares/Par | Value (\$) |
|---|--------------|-----------------------|
| Bonds continued | | |
| Foreign Bonds continued | | |
| Chile 0.0% | | |
| HQI Transelec Chile S.A., 7.875%, 2011 | \$ 680,000 | \$ 715,015 |
| | | \$ 1,758,637 |
| Italy 0.1% | | |
| UniCredito Luxembourg Finance S.A., 6%, 2017 (n) | \$ 200,000 | \$ 183,284 |
| Luxembourg 0.0% | | |
| ArcelorMittal, 6.125%, 2018 (n) | \$ 91,000 | \$ 87,515 |
| Malaysia 0.2% | | |
| Petronas Capital Ltd., 7.875%, 2022 | \$ 433,000 | \$ 521,088 |
| Mexico 0.9% | | |
| Grupo Televisa S.A., 6%, 2018 | \$ 188,000 | \$ 183,879 |
| Pemex Project Funding Master Trust, 6.625%, 2035 | 552,000 | 544,911 |
| Pemex Project Funding Master Trust, 5.75%, 2018 (n) | 528,000 | 518,736 |
| Pemex Project Funding Master Trust, 9.375%, 2008 | 541,000 | 549,818 |
| United Mexican States, 8.3%, 2031 | 128,000 | 160,640 |
| | | \$ 1,957,984 |
| Panama 0.0% | | |
| Republic of Panama, 7.25%, 2015 | \$ 8,000 | \$ 8,680 |
| Portugal 0.0% | | |
| EDP Finance B.V., 6%, 2018 (n) | \$ 100,000 | \$ 99,187 |
| Russia 0.4% | | |
| Gazprom International S.A., 7.201%, 2020 | \$ 630,322 | \$ 626,603 |
| TransCapitalInvest Ltd., 5.67%, 2014 | 215,000 | 196,474 |
| | | \$ 823,077 |
| United Kingdom 0.5% | | |
| Diageo Capital PLC, 5.75%, 2017 | \$ 520,000 | \$ 515,376 |
| Royal Bank of Scotland Group PLC, 6.99% to 2017, FRN to 2049 (n) | 750,000 | 626,453 |
| | | \$ 1,141,829 |
| Total Foreign Bonds | | \$ 8,412,739 |
| Total Bonds | | \$ 221,812,574 |
| Repurchase Agreements 1.6% | | |
| Merrill Lynch, 2.13%, dated 8/29/08, due 9/02/08, total to be received \$3,719,880 (secured by various U.S. Treasury and Federal Agency obligations and Mortgage Backed securities in a jointly traded account) | \$ 3,719,000 | \$ 3,719,000 |
| Total Investments | | \$ 225,531,574 |
| Other Assets, Less Liabilities 0.7% | | 1,491,446 |
| Net Assets 100.0% | | \$ 227,023,020 |

- (f) All or a portion of the security has been segregated as collateral for open futures contracts.
- (n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was \$4,919,686, representing 2.2% of net assets.
- (z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

| Restricted Securities | Acquisition Date | Cost | Current Market Value |
|-----------------------|------------------|------|----------------------|
|-----------------------|------------------|------|----------------------|

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| | | | |
|---|----------|--------------|--------------|
| Prudential Securities Secured Financing Corp., FRN, 7.285%, 2013 | 12/06/04 | \$ 2,019,445 | \$ 1,178,739 |
| % of Net Assets | | | 0.5% |

MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 8/31/08 - continued

The following abbreviations are used in this report and are defined:

FRN Floating Rate Note. Interest rate resets periodically and may not be the rate reported at period end.

REIT Real Estate Investment Trust

STRIPS Separate Trading of Registered Interest and Principal of Securities

Abbreviations 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:

DKK Danish Krone

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

MFS Government Markets Income Trust

Supplemental Information (Unaudited) 8/31/08

(1) Fair Value Disclosure

The fund adopted FASB Statement No. 157, Fair Value Measurements (the Statement) in this reporting period. This Statement provides a single definition of fair value, a hierarchy for measuring fair value and expanded disclosures about fair value measurements.

Various inputs are used in determining the value of the fund's investments. These inputs are categorized into three broad levels. Level 1 includes quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.). Level 3 includes unobservable inputs, which may include the adviser's own assumptions in determining the fair value of investments. Other financial instruments are derivative instruments not reflected in Total Investments, such as futures, forwards, swap contracts and written options, which are valued at the unrealized appreciation/depreciation on the instrument. The following is a summary of the levels used as of August 31, 2008 in valuing the fund's assets carried at market value:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|----------|----------------|---------|----------------|
| Investments in Securities | \$ | \$ 225,531,574 | \$ | \$ 225,531,574 |
| Other Financial Instruments | (18,509) | 187 | | (18,322) |

(2) Portfolio Securities

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

| | |
|--|----------------|
| Aggregate Cost | \$ 228,427,141 |
| Gross unrealized appreciation | \$ 1,809,198 |
| Gross unrealized depreciation | (4,704,765) |
| Net unrealized appreciation (depreciation) | \$ (2,895,567) |

The aggregate cost above includes prior fiscal year end tax adjustments.

(3) Derivative Contracts at 8/31/2008

Forward Foreign Currency Exchange Contracts at 8/31/08

| Type | Currency | Contracts to Deliver/Receive | Settlement Date Range | In Exchange For | Contracts at Value | Net Unrealized Appreciation (Depreciation) |
|---------------------|----------|------------------------------|-----------------------|-----------------|--------------------|--|
| Appreciation | | | | | | |
| SELL | DKK | 32,471 | 11/12/08 | \$ 6,639 | \$ 6,360 | \$ 279 |
| Depreciation | | | | | | |
| BUY | DKK | 32,471 | 11/12/08 | \$ 6,453 | \$ 6,361 | \$ (92) |

MFS Government Markets Income Trust - continued

Supplemental Information (Unaudited) 8/31/08

Futures contracts outstanding at 8/31/08

| Description | Contracts | Value | Expiration Date | Unrealized Appreciation (Depreciation) |
|----------------------------------|------------------|---------------|----------------------------|---|
| U.S. Treasury Note 5 yr (Long) | 96 | \$ 10,746,000 | Dec-08 | \$ (15,336) |
| U.S. Treasury Bond (Short) | 50 | 5,865,625 | Dec-08 | 5,684 |
| U.S. Treasury Note 10 yr (Short) | 120 | 13,860,000 | Dec-08 | (8,857) |
| | | | | \$ (18,509) |

At August 31, 2008, the fund had sufficient cash and/or other liquid securities to cover any commitments 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, as amended, 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)* /s/ ROBERT J. MANNING
Robert J. Manning, President

Date: October 15, 2008

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)* /s/ ROBERT J. MANNING
Robert J. Manning, President
(Principal Executive Officer)

Date: October 15, 2008

By (Signature and Title)* /s/ MARIA F. DWYER
Maria F. Dwyer, Treasurer
(Principal Financial Officer

and Accounting Officer)

Date: October 15, 2008

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