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MFS GOVERNMENT MARKETS INCOME TRUST
Form N-Q
November 05, 2004

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)

James R. Bordewick, Jr.
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, 2004

ITEM 1. SCHEDULE OF INVESTMENTS.

MFS(R) Mutual Funds

QUARTERLY PORTFOLIO HOLDINGS 8/31/04

MFS(R) GOVERNMENT
MARKETS INCOME TRUST

[graphic omitted]

The Trust is a closed-end investment product. Shares of the Trust are only available for purchase/sale on the NYSE at the current market price. Shares may trade at a discount to NAV.

Visit MFS.COM for the latest information about your investment.

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- o Annual and semiannual reports contain information regarding the specific securities held in the fund and how the fund has performed over the period.
- o Week in Review provides a look at key events influencing U.S. and global financial markets for the week.
- o MFS Global Perspective is a commentary and analysis of markets around the globe.
- o Chief Investment Strategist Corner is a commentary by James Swanson, MFS' Chief Investment Strategist.

A fact sheet, annual, and semiannual report for the fund can be accessed by clicking "Closed End Funds" on the home page. Week in Review, MFS Global Perspective, and Chief Investment Strategist Corner are located under "Updates and Announcements."

The portfolio is actively managed, and current holdings may be different.

 PORTFOLIO OF INVESTMENTS (UNAUDITED) 08/31/2004 MFS(R) GOVERNMENT MARKETS INCOME TRUST

ISSUER PAR A

BONDS - 97.8%

U.S. BONDS - 83.9%

Agency - Other - 5.7%

Financing Corp., 10.7%, 2017 \$4,09

Financing Corp., 9.8%, 2018 4,35

Financing Corp., 10.35%, 2018 6,82

 Asset Backed & Securitized - 0.2%

Freddie Mac, 3.108%, 2035 \$66

Financial Institutions - 0.8%

SLM Corp., 1.88%, 2007 \$3,20

Mortgage Backed - 54.8%

Fannie Mae, 6.942%, 2007 \$5,04

Fannie Mae, 6.5%, 2016 - 2033 21,21

Fannie Mae, 6%, 2016 - 2034 43,39

Fannie Mae, 5.5%, 2017 - 2034 55,56

Fannie Mae, 5%, 2018 - 2019 47,52

Fannie Mae, 4.5%, 2019 25,31

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| | |
|--------------------------------|-------|
| Fannie Mae, 8.5%, 2022 | 10,10 |
| Freddie Mac, 7.5%, 2027 - 2028 | 16 |
| Ginnie Mae, 7.5%, 2022 - 2032 | 96 |
| Ginnie Mae, 6.5%, 2028 - 2032 | 4,63 |

U.S. Government Agencies - 7.1%

| | |
|---|--------|
| Fannie Mae, 3.41%, 2007 | \$3,94 |
| Small Business Administration, 8.875%, 2011 | 43 |
| Small Business Administration, 6.34%, 2021 | 1,61 |
| Small Business Administration, 6.35%, 2021 | 1,95 |
| Small Business Administration, 6.44%, 2021 | 1,57 |
| Small Business Administration, 6.625%, 2021 | 1,58 |
| Small Business Administration, 4.98%, 2023 | 97 |
| Small Business Administration, 4.34%, 2024 | 1,40 |
| Small Business Administration, 4.72%, 2024 | 2,61 |
| Small Business Administration, 4.77%, 2024 | 2,53 |
| Small Business Administration, 5.52%, 2024 | 1,53 |
| U.S. Department of Housing & Urban Development, 6.36%, 2016 | 1,58 |
| U.S. Department of Housing & Urban Development, 6.59%, 2016 | 5,61 |

U.S. Treasury Obligations - 15.3%

| | |
|---|---------|
| U.S. Treasury Bonds, 10.375%, 2009 - 2012 | \$14,60 |
| U.S. Treasury Bonds, 12%, 2013 | 3,03 |
| U.S. Treasury Bonds, 8.875%, 2017 | 6,00 |
| U.S. Treasury Notes, 3.375%, 2007 | 16,10 |
| U.S. Treasury Notes, 3.625%, 2008### | 11,08 |
| U.S. Treasury STRIPS (Interest), 0%, 2012 | 4,19 |

Total U.S. Bonds \$338,77

FOREIGN BONDS - 13.9%

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Australia - 0.1%

Government of Australia, 6.25%, 2015 (International Market Sovereign) AUD 79

Austria - 0.7%

Republic of Austria, 5.5%, 2007 (International Market Sovereign) EUR 2,08

Republic of Austria, 4.65%, 2018 (International Market Sovereign) 11

Belgium - 0.4%

Kingdom of Belgium, 3.75%, 2009 (International Market Sovereign) EUR 78

Kingdom of Belgium, 5 %, 2012 (International Market Sovereign) 48

Brazil - 0.4%

Federal Republic of Brazil, 8 %, 2014 (Emerging Market Sovereign) \$1,53

Canada - 1.1%

Government of Canada, 5.25%, 2008 (International Market Sovereign) \$2,73

Government of Canada, 5.5%, 2009 - 2010 (International Market Sovereign) CAD 1,63

Government of Canada, 5.25%, 2012 (International Market Sovereign) 4

Government of Canada, 8 %, 2023 (International Market Sovereign) 7

Chile - 0.1%

HQI Transelec Chile S.A., 7.875%, 2011 (Utilities - Electric Power) \$31

Denmark - 0.5%

Kingdom of Denmark, 7 %, 2007 (International Market Sovereign) DKK 5,46

Kingdom of Denmark, 6 %, 2009 (International Market Sovereign) 3,51

Kingdom of Denmark, 5 %, 2013 (International Market Sovereign) 2,35

El Salvador

Republic of El Salvador, 8.25%, 2032 (Emerging Market Sovereign) \$18

Finland - 0.8%

Republic of Finland, 2.75%, 2006 (International Market Sovereign) EUR 1,32

Republic of Finland, 3 %, 2008 (International Market Sovereign) 1,47

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France - 0.7%

| | |
|--|--------|
| Republic of France, 4.75%, 2007 (International Market Sovereign) | EUR 98 |
| Republic of France, 4 %, 2009 (International Market Sovereign) | 1,22 |

Germany - 1.7%

| | |
|--|--------|
| Federal Republic of Germany, 4 %, 2007 - 2009 (International Market Sovereign) | EUR 78 |
| Federal Republic of Germany, 3.5%, 2008 (International Market Sovereign) | 3,62 |
| Federal Republic of Germany, 5.25%, 2010 (International Market Sovereign) | 24 |
| Kreditanstalt fur Wiederaufbau, 3.25%, 2008 (International Market Agencies) | 70 |

Ireland - 0.9%

| | |
|---|----------|
| Republic of Ireland, 4.25%, 2007 (International Market Sovereign) | EUR 2,71 |
|---|----------|

Malaysia - 0.2%

| | |
|---|------|
| Petroliam Nasional Berhad, 7.75%, 2015 (Emerging Market Agencies) | \$53 |
|---|------|

Mexico - 1.3%

| | |
|---|--------|
| BBVA Bancomer Capital Trust I, 1 0.5%, 2011 (Banks & Credit Companies)## | \$1,50 |
| Pemex Project Funding Master Trust, 8.625%, 2022 (Emerging Market Agencies) | 98 |
| Petroleos Mexicanos, 9.375%, 2008 (Emerging Market Agencies) | 1,07 |
| United Mexican States, 8.125%, 2019 (Emerging Market Sovereign) | 1,04 |
| United Mexican States, 8 %, 2022 (Emerging Market Sovereign) | 8 |

Netherlands - 1.0%

| | |
|--|----------|
| Kingdom of Netherlands, 5.75%, 2007 (International Market Sovereign) | EUR 1,51 |
| Kingdom of Netherlands, 3.75%, 2009 (International Market Sovereign) | 1,60 |

New Zealand - 0.6%

| | |
|--|--------|
| Government of New Zealand, 7 %, 2009 (International Market Sovereign) | NZD 78 |
| Government of New Zealand, 6.5%, 2013 (International Market Sovereign) | 2,79 |

Panama - 0.2%

| | |
|---|------|
| Republic of Panama, 9.375%, 2023 - 2029 (Emerging Market Sovereign) | \$64 |
| Republic of Panama, 8.875%, 2027 (Emerging Market Sovereign) | 20 |

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 Portugal - 0.2%

 Republic of Portugal, 5.45%, 2013 (International Market Sovereign) EUR 56

 Qatar - 0.3%

 State of Qatar, 9.75%, 2030 (Emerging Market Sovereign) \$99

 Russia - 0.4%

 Aries Vermögensverwaltungs, 9.6%, 2014 (Emerging Market Sovereign)## \$50

 Gazprom OAO, 9.625%, 2013 (Oils) 37

 Russian Ministry of Finance, 12.75%, 2028 (Emerging Market Sovereign) 44

 South Africa - 0.5%

 Republic of South Africa, 9.125%, 2009 (Emerging Market Sovereign) \$85

 Republic of South Africa, 8.5%, 2017 (Emerging Market Sovereign) 84

 Spain - 1.4%

 Kingdom of Spain, 7 %, 2005 (International Market Sovereign) \$3,60

 Kingdom of Spain, 6 %, 2008 (International Market Sovereign) EUR 1

 Kingdom of Spain, 5.35%, 2011 (International Market Sovereign) 1,42

 United Kingdom - 0.4%

 United Kingdom Treasury, 7.25%, 2007 (International Market Sovereign) GBP 14

 United Kingdom Treasury, 5.75%, 2009 (International Market Sovereign) 19

 United Kingdom Treasury, 5 %, 2012 (International Market Sovereign) 58

 Total Foreign Bonds

 Total Bonds (Identified Cost, \$384,888,572)

 REPURCHASE AGREEMENT - 2.4%

 Goldman Sachs, 1.58%, dated 08/31/2004, due 09/01/2004,
 total to be received \$9,570,420 (secured by various U.S. Treasury
 and Federal Agency obligations in a jointly traded account),at Cost \$9,57

 Total Investments (Identified Cost, \$394,458,572)

 OTHER ASSETS, LESS LIABILITIES - (0.2)%

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Net Assets - 100.0%

SEC Rule 144A restriction.

Security segregated as collateral for open futures contracts.

Abbreviations have been used throughout this report to indicate amounts shown in currencies other

A list of abbreviations is shown below

AUD = Australian Dollar

CAD = Canadian Dollar

DKK = Danish Krone

EUR = Euro

GBP = British Pound

NZD = New Zealand Dollar

SEK = Swedish Krona

SEE ATTACHED SCHEDULES.

FOR MORE INFORMATION SEE NOTES TO FINANCIAL STATEMENTS AS DISCLOSED IN THE MOST RECENT SEMI-ANNUA

(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 | \$399,479,364 |
| | ----- |
| Gross unrealized appreciation | \$8,385,361 |
| | ----- |
| Gross unrealized depreciation | (3,148,400) |
| | ----- |
| Net unrealized appreciation | 5,236,961 |
| | ----- |

(2) FINANCIAL INSTRUMENTS

The trust trades financial instruments with off-balance-sheet risk in the normal course of its investing activities in order to manage exposure to market risks such as interest rates and foreign currency exchange rates. These financial instruments include forward foreign currency exchange contract and futures contracts. The notional or contractual amounts of these instruments represent the investment the trust has in particular classes of financial instruments and does not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered.

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS

| SETTLEMENT DATE | CONTRACTS TO DELIVER/RECEIVE | IN EXCHANGE FOR | CONTRACTS AT VALUE | NET UNRE APPRECI (DEPRECI |
|--------------------|---------------------------------|-----------------|-----------------------|---------------------------------|
| ----- | | | | |
| SALES | | | | |
| 10/12/04 | AUD 641,743 | \$455,654 | \$451,429 | \$4, |
| 11/16/04 | DKK 12,375,523 | 2,032,840 | 2,025,191 | 7, |
| 10/6/04 - 11/15/04 | EUR 21,072,207 | 25,674,559 | 25,655,279 | 19, |

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| | | | | |
|--------------------|----------------|--------------|--------------|------|
| 11/16/04 | GBP 896,237 | 1,624,765 | 1,606,638 | 18, |
| 10/12/04 | NZD 3,709,481 | 2,373,103 | 2,421,671 | (48, |
| | | \$32,160,921 | \$32,160,208 | \$ |
| PURCHASES | | | | |
| 9/13/04 | CAD 236,019 | \$180,373 | \$179,601 | (\$ |
| 10/6/04 - 11/15/04 | EUR 1,201,803 | 1,463,261 | 1,463,351 | |
| 11/16/04 | SEK 15,487,767 | 2,059,737 | 2,064,554 | 4, |
| | | \$3,703,371 | \$3,707,506 | \$4, |

At August 31, 2004, forward foreign currency purchases and sales under master netting agreements amounted to a net receivable of \$50,287 with Merrill Lynch International.

At August 31, 2004, the trust had sufficient cash and/or securities to cover any commitments under

FUTURES CONTRACTS

| Description | Expiration | Contracts | Position | Unrealized Appreciation (Depreciation) |
|----------------------------|------------|-----------|----------|--|
| U.S. Treasury Note 2 Year | Dec-04 | 174 | Short | (\$52,373) |
| U.S. Treasury Note 10 Year | Dec-04 | 50 | Long | 20,887 |
| | | | | (\$31,486) |

At August 31, 2004, the trust had sufficient cash and/or securities to cover any margin requirements

ITEM 2. CONTROLS AND PROCEDURES.

- (a) Based upon their evaluation of the registrant's disclosure controls and procedures 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 Investment Company Act of 1940 (the "Act")) that occurred during the registrant's last fiscal quarter that has materially affected, or is 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.

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.

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Registrant: MFS GOVERNMENT MARKETS INCOME TRUST

By (Signature and Title)* ROBERT J. MANNING

Robert J. Manning, President

Date: October 25, 2004

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)* ROBERT J. MANNING

Robert J. Manning, President
(Principal Executive Officer)

Date: October 25, 2004

By (Signature and Title)* RICHARD M. HISEY

Richard M. Hisey, Treasurer (Principal Financial Officer and Accounting Officer)

Date: October 25, 2004

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