

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
Form N-Q
September 28, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-22011

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York
(Address of principal executive offices)

10036
(Zip code)

Arthur Lev

522 Fifth Avenue, New York, New York 10036
(Name and address of agent for service)

Registrant's telephone number, including area code: 201-830-8894

Date of fiscal year end: October 31, 2012

Date of reporting period: July 31, 2012

Item 1. Schedule of Investments.

The Fund's schedule of investments as of the close of the reporting period prepared pursuant to Rule 12-12 of Regulation S-X is as follows:

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Portfolio of Investments

Third Quarter Report

July 31, 2012 (unaudited)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Fixed Income Securities (99.2%)		
Argentina (3.4%)		
Sovereign (3.4%)		
Argentina Boden Bonds, 7.00%, 10/3/15	\$ 66,500	\$ 55,511
Brazil (16.2%)		
Sovereign (16.2%)		
Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/1/14	BRL 522,172	261,690
Chile (0.7%)		
Sovereign (0.7%)		
Chile Government International Bond, 5.50%, 8/5/20	CLP 4,665,000	10,635
Colombia (4.2%)		
Sovereign (4.2%)		
Colombia Government International Bond, 7.75%, 4/14/21	COP 29,000,000	20,440
9.85%, 6/28/27	46,000,000	40,058
12.00%, 10/22/15	11,000,000	7,709
		68,207
Hungary (6.4%)		
Sovereign (6.4%)		
Hungary Government Bond, 6.75%, 2/24/17	HUF 14,488,920	61,960
7.50%, 11/12/20	9,480,000	41,814
		103,774
Indonesia (7.1%)		
Sovereign (7.1%)		
Barclays Bank PLC, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17 (a)(b)	IDR 360,000,000	45,674
Credit Suisse, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17	154,683,530	19,625
Deutsche Bank AG, Republic of Indonesia Government Bond, Credit Linked Notes, 11.00%, 12/15/20 (a)(b)	60,000,000	8,529
JPMorgan Chase Bank, London, Indonesia Government Bonds, Credit Linked Notes, 8.25%, 7/17/21	135,000,000	16,774
10.00%, 7/19/17 (b)	192,525,000	24,426

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

115,028

Malaysia (3.1%)

Sovereign (3.1%)

Malaysia Government Bond,

3.84%, 8/12/15

MYR

110,000

35,936

5.09%, 4/30/14

42,152

13,943

49,879

		Face Amount (000)	Value (000)
Mexico (15.7%)			
Sovereign (15.7%)			
Mexican Bonos, 8.00%, 6/11/20	MXN	2,104,027	\$ 189,166
Petroleos Mexicanos (Units), 7.65%, 11/24/21 (a)(c)		791,300	64,525
			253,691
Peru (1.9%)			
Sovereign (1.9%)			
Peru Government Bond, 7.84%, 8/12/20	PEN	37,745	17,404
Peruvian Government International Bond (Units), 7.84%, 8/12/20 (c)		30,000	13,832
			31,236
Philippines (1.0%)			
Sovereign (1.0%)			
Philippine Government International Bond, 4.95%, 1/15/21	PHP	648,000	16,776
Poland (8.4%)			
Sovereign (8.4%)			
Poland Government Bond, 5.25%, 10/25/17	PLN	120,000	37,291
5.50%, 10/25/19		307,287	97,274
			134,565
Russia (2.9%)			
Sovereign (2.9%)			
Russian Foreign Bond - Eurobond, 7.85%, 3/10/18 (a)	RUB	1,095,000	36,480
7.85%, 3/10/18		290,000	9,661
			46,141
South Africa (9.5%)			
Sovereign (9.5%)			
South Africa Government Bond, 7.25%, 1/15/20	ZAR	1,065,411	134,290
8.00%, 12/21/18		140,000	18,473
			152,763
Thailand (4.0%)			
Sovereign (4.0%)			
Thailand Government Bond, 4.25%, 3/13/13	THB	1,597,940	51,154
5.25%, 7/13/13		395,100	12,814
			63,968

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

	Face Amount (000)	Value (000)
Turkey (11.0%)		
Sovereign (11.0%)		
Turkey Government Bond, 10.50%, 1/15/20	TRY 278,825	\$ 177,484
Venezuela (3.7%)		
Sovereign (3.7%)		
Petroleos de Venezuela SA, 8.50%, 11/2/17	\$ 69,000	57,960
Venezuela Government International Bond, 9.25%, 9/15/27	1,349	1,122
		59,082
Total Fixed Income Securities (Cost \$1,617,407)		1,600,430
	Shares	
Short-Term Investment (0.8%)		
Investment Company (0.8%)		
Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (d) (Cost \$12,823)	12,822,881	12,823
Total Investments (100.0%) (Cost \$1,630,230) (e)+		1,613,253
Liabilities in Excess of Other Assets		(362,357)
Net Assets		\$ 1,250,896

- (a) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (b) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on July 31, 2012.
- (c) Consists of one or more classes of securities traded together as a unit.
- (d) The Fund invests in the Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (the Liquidity Funds), an open-end management investment company managed by the Adviser. Advisory fees paid by the Fund are reduced by an amount equal to the advisory and administrative service fees paid by the Liquidity Funds with respect to assets invested by the Fund in the Liquidity Funds.
- (e) Securities are available for collateral in connection with open foreign currency exchange contracts.
- + At July 31, 2012, the U.S. Federal income tax cost basis of investments was approximately \$1,630,230,000 and, accordingly, net unrealized depreciation for U.S. Federal income tax purposes was approximately \$16,977,000 of which approximately \$63,132,000 related to appreciated securities and approximately \$80,109,000 related to depreciated securities.

Foreign Currency Exchange Contracts Information:

The Fund had the following foreign currency exchange contracts open at period end:

Counterparty	Currency to Deliver (000)	Value (000)	Settlement Date	In Exchange For (000)	Value (000)	Unrealized Appreciation (Depreciation) (000)
JPMorgan Chase Bank	USD	75,210	8/16/12	RUB	2,475,347	1,423
JPMorgan Chase Bank	USD	69,781	8/30/12	MYR	220,530	541
JPMorgan Chase Bank	USD	21,426	8/31/12	THB	678,000	73
		\$ 166,417			\$ 168,454	\$ 2,037

BRL	Brazilian Real
CLP	Chilean Peso
COP	Colombian Peso
HUF	Hungarian Forint
IDR	Indonesian Rupiah
MXN	Mexican New Peso
MYR	Malaysian Ringgit
PEN	Peruvian Nuevo Sol
PHP	Philippine Peso
PLN	Polish Zloty
RUB	Russian Ruble
THB	Thai Baht
TRY	Turkish Lira
USD	United States Dollar
ZAR	South African Rand

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (unaudited)

Notes to the Portfolio of Investments • July 31, 2012

Security Valuation: Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. Securities listed on a foreign exchange are valued at their closing price, except as noted below. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the last reported bid and ask prices. Equity securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Short-term debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Fund's Board of Directors (the Directors) determines such valuation does not reflect the securities' fair value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and adhoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Most foreign markets close before the New York Stock Exchange (NYSE). Occasionally, developments that could affect the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business on the NYSE. If these developments are expected to materially affect the value of the securities, the valuations may be adjusted to reflect the estimated fair value as of the close of the NYSE, as determined in good faith under procedures established by the Directors.

Fair Value Measurement: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosure (ASC 820), defines fair value as the value that the Funds would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-Q

asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Funds' investments. The inputs are summarized in the three broad levels listed below.

- Level 1 unadjusted quoted prices in active markets for identical investments

- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

- Level 3 significant unobservable inputs including the Fund's own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

The following is a summary of the inputs used to value the Fund's investments as of July 31, 2012.

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Fixed Income Securities				
Sovereign	\$	\$ 1,600,430	\$	\$ 1,600,430
Short-Term Investment - Investment Company	12,823			12,823
Foreign Currency Exchange Contracts		2,037		2,037
Total Assets	\$ 12,823	\$ 1,602,467	\$	\$ 1,615,290

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of July 31, 2012, the Fund did not have any significant investments transfer between investment levels.

Item 2. Controls and Procedures.

(a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the Fund's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Item 3. Exhibits.

(a) A separate certification for each principal executive officer and principal financial officer of the registrant are 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.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ Arthur Lev
Arthur Lev
Principal Executive Officer
September 19, 2012

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

/s/ Arthur Lev
Arthur Lev
Principal Executive Officer
September 19, 2012

/s/ Francis Smith
Francis Smith
Principal Financial Officer
September 19, 2012
