

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
Form N-Q  
September 27, 2010

**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)

552 FIFTH AVENUE  
NEW YORK, NY  
(Address of principal executive offices)

10036  
(Zip code)

RANDY TAKIAN  
522 FIFTH AVENUE,  
NEW YORK, NY 10036  
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-800-231-2608

Date of fiscal year end: 10/31

Date of reporting period: 7/31/10

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-S (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under The investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**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:

---

**2010 Third Quarter Report**

July 31, 2010 (unaudited)

**Portfolio of Investments****Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.***(Showing Percentage of Total Value of Investments)*

		Face Amount (000)	Value (000)
<b>Fixed Income Securities (97.3%)</b>			
<b>Brazil (15.9%)</b>			
<b>Sovereign (15.9%)</b>			
Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/1/14 - 1/1/17	BRL	477,658	\$ 255,319
<b>Colombia (3.5%)</b>			
<b>Sovereign (3.5%)</b>			
Republic of Colombia, 9.85%, 6/28/27	COP	46,000,000	33,320
12.00%, 10/22/15		33,000,000	23,260
			56,580
<b>Ecuador (0.4%)</b>			
<b>Sovereign (0.4%)</b>			
Republic of Ecuador, 9.38%, 12/15/15	\$	7,000	6,335
<b>Egypt (2.0%)</b>			
<b>Sovereign (2.0%)</b>			
UBS AG Jersey Branch, 12.60%, 2/22/17	EGP	175,300	31,450
<b>Hungary (9.5%)</b>			
<b>Sovereign (9.5%)</b>			
Republic of Hungary, 6.75%, 2/24/17	HUF	13,796,620	62,028
7.25%, 6/12/12		776,500	3,606
8.00%, 2/12/15		18,329,840	86,836
			152,470
<b>Indonesia (12.9%)</b>			
<b>Corporate Bonds (0.3%)</b>			
Pindo Deli Finance Mauritius, Tranche A, Zero Coupon Zero Coupon, 4/28/15 (a)(b)(c)	\$	137	34
Zero Coupon, 4/28/15 (a)(b)(c)(d)		1,391	341
Tranche B, Zero Coupon Zero Coupon, 4/28/18 (a)(b)(c)(d)		8,336	1,084
Tranche C, Zero Coupon Zero Coupon, 4/28/25 (a)(b)(c)(d)		2,227	50
Tjiwi Kimia Finance Mauritius Ltd.,			

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

Tranche A, Zero Coupon		
Zero Coupon, 4/28/15 (a)(b)(c)(d)	4,152	976
Zero Coupon, 4/28/15 (a)(b)(c)	627	147
Tranche B, Zero Coupon		
Zero Coupon, 4/28/18 (a)(b)(c)(d)	9,360	1,872
Tranche C, Zero Coupon		
Zero Coupon, 4/28/27 (a)(b)(c)(d)	998	22
		4,526

---

## 2010 Third Quarter Report

July 31, 2010 (unaudited)

## Portfolio of Investments (cont d)

## Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

*(Showing Percentage of Total Value of Investments)*

		Face Amount (000)	Value (000)
<b>Sovereign (12.6%)</b>			
Barclays Bank PLC, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17	IDR	750,000,000	\$ 93,829
Credit Suisse, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/15/17		154,683,530	19,269
Deutsche Bank AG, Republic of Indonesia Government Bond, Credit Linked Notes, Credit Linked Notes			
11.00%, 12/15/20		60,000,000	8,151
11.50%, 9/23/19 (d)		235,000,000	33,440
12.80%, 6/22/21		150,000,000	23,094
JPMorgan Chase Bank, London, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/19/17 (a)		192,525,000	23,982
			201,765
			206,291
<b>Malaysia (4.2%)</b>			
<b>Sovereign (4.2%)</b>			
Government of Malaysia, 3.83%, 9/28/11	MYR	55,030	17,484
3.84%, 8/12/15		110,000	35,100
5.09%, 4/30/14		42,152	14,061
			66,645
<b>Mexico (15.8%)</b>			
<b>Sovereign (15.8%)</b>			
Mexican Bonos, 7.75%, 12/14/17	MXN	515,924	44,439
8.00%, 12/17/15		101,200	8,716
9.50%, 12/18/14		360,000	32,531
10.00%, 12/5/24 - 11/20/36		1,628,375	167,739
			253,425
<b>Peru (1.0%)</b>			
<b>Sovereign (1.0%)</b>			
Peru Government Bond, 7.84%, 8/12/20	PEN	37,745	15,521
<b>South Africa (8.4%)</b>			
<b>Sovereign (8.4%)</b>			
Republic of South Africa, 7.25%, 1/15/20	ZAR	901,400	115,806
8.00%, 12/21/18		140,000	19,015
			134,821



## 2010 Third Quarter Report

July 31, 2010 (unaudited)

## Portfolio of Investments (cont d)

## Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

*(Showing Percentage of Total Value of Investments)*

		Face Amount (000)	Value (000)
<b>Thailand (4.9%)</b>			
<b>Sovereign (4.9%)</b>			
Kingdom of Thailand,			
4.25%, 3/13/13	THB	1,597,940	\$ 51,488
5.25%, 7/13/13 - 05/12/14		795,100	26,541
			78,029
<b>Turkey (15.4%)</b>			
<b>Sovereign (15.4%)</b>			
Republic of Turkey,			
Zero Coupon, 5/11/11 - 1/25/12	TRY	367,998	226,647
10.00%, 2/15/12		18,483	13,625
16.00%, 3/7/12		9,340	6,903
			247,175
<b>Venezuela (3.4%)</b>			
<b>Sovereign (3.4%)</b>			
Republic of Venezuela,			
9.25%, 9/15/27 - 5/7/28 (e)	\$	64,500	44,551
9.38%, 1/13/34		7,500	5,138
10.75%, 9/19/13		5,000	4,605
			54,294
<b>Total Fixed Income Securities (Cost \$1,515,246)</b>			<b>1,558,354</b>
<b>Loans (2.3%)</b>			
<b>Colombia (0.9%)</b>			
<b>Corporate (0.9%)</b>			
MFI WWB Cali,			
12.50%, 2/28/11 (a)(c)(f)	COP	15,103,760	8,186
MFI WWB Popoyan,			
12.50%, 2/28/11 (a)(c)(f)		13,215,790	7,162
			15,348
<b>Kazakhstan (0.4%)</b>			
<b>Corporate (0.4%)</b>			
MFI KMF,			
15.50%, 2/28/11 (a)(c)(f)	KZT	905,197	5,882
<b>Mexico (0.8%)</b>			
<b>Corporate (0.8%)</b>			
MFI Finsol,			
14.00%, 2/28/11 (a)(c)(f)	MXN	161,685	12,775





**2010 Third Quarter Report**

July 31, 2010 (unaudited)

**Portfolio of Investments (cont d)****Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.***(Showing Percentage of Total Value of Investments)*

	Face Amount (000)	Value (000)
<b>Peru (0.2%)</b>		
<b>Corporate (0.2%)</b>		
MFI Confranz, 10.40%, 2/28/11 (a)(c)(f)	PEN 8,672	\$ 3,074
<b>Total Loans (Cost \$40,569)</b>		<b>37,080</b>
<b>Shares</b>		
<b>Short-Term Investment (0.4%)</b>		
<b>Investment Company (0.4%)</b>		
Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (g) (Cost \$5,935)	5,935,000	5,935
<b>Total Investments (100.0%) (Cost \$1,561,750) +</b>		<b>1,601,368</b>
<b>Liabilities in Excess of Other Assets</b>		<b>(337,483)</b>
<b>Net Assets</b>		<b>\$ 1,264,203</b>

(a) 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, 2010.

(b) Issuer is in default.

(c) Security has been deemed illiquid at July 31, 2010.

(d) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(e) Denotes all or a portion of securities subject to repurchase under the Reverse Repurchase Agreements as of July 31, 2010.

(f) At July 31, 2010, the fund held approximately \$37,080,000 of fair valued securities, representing 2.9% of net assets. These securities have been fair valued as determined in good faith under procedures established by and under the general supervision of the Fund's Directors.

(g) The Fund invests in Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class, (the Liquidity Fund), an open-end management investment company managed by the Investment Adviser. Investment advisory fees paid by the Fund are reduced by an amount equal to the advisory and administrative service fees paid by the Liquidity Fund with respect to assets invested by the Fund in the Liquidity Fund.

+ At July 31, 2010, the U.S. Federal income tax cost basis of investments was approximately \$1,561,750,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was \$39,935,000 of which \$101,308,000 related to appreciated securities and \$61,373,000 related to depreciated securities.

**2010 Third Quarter Report**

**July 31, 2010 (unaudited)**

**Portfolio of Investments (cont d)**

**Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.**

*(Showing Percentage of Total Value of Investments)*

**Foreign Currency Exchange Contracts Information:**

The Fund had the following foreign currency exchange contract(s) open at period end:

	<b>Currency to Deliver (000)</b>		<b>Value (000)</b>	<b>Settlement Date</b>	<b>In Exchange For (000)</b>		<b>Value (000)</b>		<b>Net Unrealized Appreciation (Depreciation) (000)</b>
EUR	27,920	\$	36,383	9/2/10	USD	36,512	\$	36,512	\$ 129
USD	56,303		56,303	8/16/10	MYR	180,000		56,539	236
USD	59,745		59,745	8/19/10	RUB	1,825,230		60,227	482
		\$	152,431				\$	153,278	\$ 847

---

BRL	Brazilian Real
COP	Colombian Peso
EGP	Egyptian Pound
EUR	Euro
HUF	Hungarian Forint
IDR	Indonesian Rupiah
KZT	Kazakhstan Tenge
MXN	Mexican Peso
MYR	Malaysian Ringgit
PEN	Peruvian Nuevo Sol
RUB	Russian Ruble
THB	Thai Baht
TRY	Turkish Lira
USD	United States Dollar
ZAR	South African Rand

At July 31, 2010, the Fund had a reverse repurchase agreement outstanding with UBS as follows:

**Maturity in  
Less than**

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

365 Days

Value of Securities Subject to Repurchase	\$	44,351,000
Liability Under Reverse Repurchase Agreement	\$	39,823,000
Weighted Average Days to Maturity		23.44

---

2010 Third Quarter Report

July 31, 2010 (unaudited)

Portfolio of Investments

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

(Showing Percentage of Total Value of Investments)

Fair Value Measurement Information:

The following is a summary of the inputs used to value the Fund's net assets as of July 31, 2010. (See Notes to Portfolio of Investments for further information regarding fair value measurement.)

Investment Type	Level 1 Quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
<b>Assets:</b>				
<b>Fixed Income Securities</b>				
Corporate Bonds	\$	\$ 4,526	\$	\$ 4,526
Sovereign		1,553,828		1,553,828
<b>Total Fixed Income Securities</b>		<b>1,558,354</b>		<b>1,558,354</b>
<b>Loans</b>			37,080	37,080
<b>Short-Term Investment</b>				
Investment Company	5,935			5,935
<b>Foreign Currency Exchange Contracts</b>		847		847
<b>Total Assets</b>	<b>5,935</b>	<b>1,559,201</b>	<b>37,080</b>	<b>1,602,216</b>
<b>Liabilities:</b>				
<b>Reverse Repurchase Agreements</b>		39,823		39,823
<b>Total</b>	<b>\$ 5,935</b>	<b>\$ 1,519,378</b>	<b>\$ 37,080</b>	<b>\$ 1,562,393</b>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	Loans (000)
<b>Balance as of 10/31/09</b>	\$ 35,146
Accrued discounts/premiums	
Realized gains (losses)	
Change in unrealized appreciation (depreciation)	1,934
Net purchases (sales)	

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

Transfers in for Level 3		
Transfers out of Level 3		
<b>Balance as of 7/31/10</b>	\$	37,080
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at Level 3 at 7/31/10.	\$	1,934

---

## Notes to Portfolio of Investments

In accordance with FASB ASC 820 Fair Value Measurements and Disclosure (ASC 820) (formerly known as SFAS 157), fair value is defined as the price that the Fund 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 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 Fund's investments. The inputs are summarized in the three broad levels listed below:

- Level 1 quoted prices in active markets for identical securities
- 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 each Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

**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. Unlisted securities and listed securities not trade on the valuation date for which markets are readily available are valued at the mean between the current bid and ask prices obtained from reputable brokers. 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. Debt Securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Board of Directors (the Directors) determine such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair value as determined by the Directors.

All other securities and investments for which market values are not readily available, including restricted securities, and those securities for which it is inappropriate to determine prices in accordance with the aforementioned procedures, are valued at fair value as determined in good faith under procedures adopted by the Directors, although the actual calculations may be done by others. 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.

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

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.

---



**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 Trust's internal control over financial reporting.

**Item 3. Exhibits.**

---

**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) Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
By: /s/ Randy Takian  
Name: Randy Takian  
Title: Principal Executive Officer  
Date: September 21, 2010

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.

By: /s/ Randy Takian  
Name: Randy Takian  
Title: Principal Executive Officer  
Date: September 21, 2010

By: /s/ Francis Smith  
Name: Francis Smith  
Title: Principal Executive Officer  
Date: September 21, 2010

---