Heavyweight central banks gave a strong message of support to markets Friday prompting a rally around the world.

Stocks and bonds in Europe surged after European Central Bank President Mario Draghi underlined his message that the central bank is ready to expand its stimulus program.

They extended gains after an interest-rate cut from China’s central bank, a shock move that drove currencies of commodity-exporting countries sharply higher in anticipation of more Chinese demand.
The moves highlight the extent to which central banks remain in the driving seat for global markets, while investors fret about a slowdown in the global economy.

The U.S. Federal Reserve has ended its bond-buying stimulus in response to a stronger economy, but officials elsewhere are under pressure as growth and inflation stall. Both the eurozone and China released weaker-than-expected business activity data earlier this week.

“This underlines that as investors you need to make sure you have a big enough allocation to risk assets, because they’re being buoyed up by central banks’ actions,” said Julian Chillingworth, chief investment officer at Rathbones, which manages £26.3 billion ($41.2 billion) in assets.

The Stoxx Europe 600 index traded 1.4% higher late morning in Europe. In the U.S., stock futures pointed to a 0.6% opening gain for the S&P 500, building on Thursday’s record close. Changes in futures aren’t necessarily reflected in market moves after the opening bell.

The initial move came after Mr. Draghi said in a speech in Frankfurt it was necessary to bring eurozone inflation up to the ECB’s target “without delay.”

While the ECB chief has hinted in the past that the central bank could increase the scope and size of its asset purchases—possibly to include government bonds—some analysts said his warnings about low inflation have been getting firmer.

“There was certainly more of a sense of urgency than there has been,” said Lyn Graham-Taylor, a strategist at Rabobank.

Bonds in the eurozone also rallied. Italy’s 10-year yield touched a record low of 2.24%. Yields fall when prices rise.

Stocks and government bonds are seen as beneficiaries should the ECB eventually
opt for a program of sovereign quantitative easing.

Such a policy is likely to weaken the euro. The common currency dropped 1.0% to $1.2430 Friday.

Given Mr. Draghi’s tone, the ECB could broaden its asset purchases as soon as its December meeting, according to Frederik Ducrozet, an analyst at Crédit Agricole.

“It will be very difficult for the ECB to avoid new measures now, the question is more about the timing and composition of such measures,” he said.

Stocks extended gains after China cut rates, although the move came after Asian markets had closed. Germany’s DAX stock index, packed with auto makers and engineering firms that depend heavily on demand from China, rose 1.9% on the day. Earlier Friday, Shanghai’s main stock index ended the day 1.4% higher.

The Australian dollar rose almost 0.9% against its U.S. counterpart, while the New Zealand and Canadian dollars rose 0.8% and 1.1% respectively.

In commodity markets, copper gained $55 to $6,713 a ton, while oil prices also jumped. The Brent contract, which had been close to neutral earlier in the day, rose 72 cents to $80.07 a barrel on ICE Futures Europe. WTI for January is up 61 cents at $76.45 on the New York Mercantile Exchange.

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